REPUBLIC OF THE PHILIPPINES
COURT OF TAX APPEALS
QUEZON CITY

FIRST DIVISION

PPD PHARMACEUTICAL DEVELOPMENT PHILIPPINES CORP.,
Petitioner,

- versus -

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

CTA Case No. 10132

Members:

DEL ROSARIO, *PJ, Chairperson,*
MANAHAN, and
REYES-FAJARDO, *JJ.*

Promulgated:
NOV 29 2022 ; 3:27p.m.

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DECISION

REYES-FAJARDO, *J.*:

This Petition for Review dated July 24, 2019,[1] filed by PPD Pharmaceutical Development Philippines Corp., seeks the refund of alleged excess and unutilized input value-added tax (VAT) amounting to Fifteen Million Three Hundred Eleven Thousand Eight Hundred Eighty-Two Pesos and Sixty-Seven Centavos (₱15,311,882.67), covering the 1st and 2nd quarters of calendar year (CY) 2017.

FACTS

Petitioner PPD Pharmaceutical Development Philippines Corp. is a corporation registered with the Securities and Exchange Commission (SEC), with principal office address at 22nd Floor Net Park Building, 5th Avenue E-Square, Crescent Park West, Bonifacio

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1 Docket (Vol. I), pp. 12-27. With Supplement to the Petition for Review dated August 29, 2019, *id.* at pp. 84-90, admitted by the Court pursuant to Resolution dated September 6, 2019, *id.* at p. 98.

Global City, Taguig.[2] It is a VAT-registered person, with Tax Identification Number (TIN) 009-270-744-000.[3]

Respondent is the Commissioner of Internal Revenue with office address at the BIR National Office Building, BIR Road, Diliman, Quezon City.[4]

On March 29, 2019, petitioner filed its administrative claim for refund of its alleged unutilized creditable input VAT in the amount of ₱15,311,882.67, for the 1st and 2nd quarters of CY 2017, with Revenue District Office (RDO) No. 44.[5]

On July 25, 2019, petitioner filed a Petition for Review dated July 24, 2019, docketed as CTA Case No. 10132,[6] to which respondent filed[7] an Answer on September 30, 2019.[8]

On August 16, 2019, petitioner received the Bureau of Internal Revenue (BIR)'s Letter dated June 24, 2019, entirely denying its administrative claim for input VAT refund.[9]

On August 29, 2019, petitioner filed a Supplement to the Petition for Review,[10] stating that on August 16, 2019, it received the BIR's letter dated June 24, 2019, entirely denying its administrative claim for input VAT refund.[11] Respondent filed an Answer thereto on September 30, 2019.

On October 11, 2019, petitioner filed its Reply, for both respondent's Answer on its original and supplemental petition for review.[12]

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2 Par. 1.1, Stipulation of Facts, Joint Stipulation of Facts and Issues (JSFI). Docket (Vol. II), p. 717.
3 Exhibit "P-3." Docket (Vol. III), p. 880.
4 Par. 1.2, Stipulation of Facts, JSFI. Docket (Vol. II), p. 717.
5 Par. 1.3, Stipulation of Facts, JSFI. Docket (Vol. II), p. 718. Exhibit "P-4." Docket (Vol. III), p. 882.
6 Docket (Vol. I), pp. 12-29.
7 Through registered mail.
8 Docket (Vol. I), pp. 120-125.
9 Par. 1.5, Stipulation of Facts, JSFI. Docket (Vol. II), p. 718.
10 Docket (Vol. I), pp. 84-92.
11 Par. 1.6, Stipulation of Facts, JSFI. Docket (Vol. II), p. 718.
12 Docket (Vol. I), pp. 108-116.

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During the Pre-Trial Conference held on February 13, 2020, respondent manifested that she will not be presenting any evidence in this case.[13]

On June 30, 2020, the parties filed their Joint Stipulation of Facts and Issue,[14] which was approved through Resolution dated July 21, 2020.[15] On the basis thereof, the Court issued a Pre-Trial Order.[16]

Trial ensued. Petitioner presented: (1) David Ceasar J. Canama (Canama),[17] petitioner's Associate Accountant; and (2) the Court-commissioned independent certified public accountant Krista V. Bambao (ICPA Bambao),[18] as its witnesses.

On November 20, 2020, petitioner filed its Formal Offer of Documentary Evidence,[19] to which respondent filed her Comment / Opposition on December 11, 2020.[20]

By Resolution dated February 22, 2021,[21] the pieces of evidence offered by petitioner were admitted, save for:

1. Exhibit "P-39," for failure to identify; and

2. Exhibits "P-71," "P-72," "P-73," "P-74," "P-75," "P-76," "P-77," "P-78," "P-79," "P-80," "P-81," "P-82," "P-83," "P-84," "P-85," "P-86," "P-87," "P-88," "P-89," "P-90," "P-91," "P-92," "P-93," "P-114," "P-115," "P-116," "P-117," "P-118," "P-119," "P-120," "P-121," "P-122," "P-123," "P-124," "P-125," "P-126," "P-127," "P-128," "P-129," "P-130," "P-131," "P-132," "P-133," "P-134," "P-

13 Order dated December 10, 2019, Docket (Vol. I), pp. 419-420; Minutes of the hearing held on, and Order dated, February 13, 2020, Docket (Vol. II), pp. 668-670, and 677-678, respectively.
14 Docket (Vol. II), pp. 717-727.
15 *Id.* at pp. 729-730.
16 *Id.* at pp. 814- 826.
17 Exhibit "P-41." Docket (Vol. II), pp. 428-458. Identified during the hearing held on October 6, 2020, see minutes thereof, and Order dated, October 6, 2020, docket (Vol. II), pp. 739-A tto 739-F, and 740-741, respectively.
18 Exhibit "P-149," Docket (Vol. II), pp. 773-788. Identified during the hearing held on November 10, 2020, see minutes thereof, and Order dated November 10, 2020, docket (Vol. II), pp. 806-808, and docket (Vol. III), pp. 1222-1223, respectively.
19 Docket (Vol. III), pp. 827-847.
20 *Id.* at pp. 1233-1236.
21 *Id.* at pp. 1240-1243.

135," "P-136," "P-137," "P-138," "P-139," "P-140," "P-141," "P-142," "P-143," "P-144," and "P-145," for failure to present the originals thereof for comparison.

On March 30, 2021, petitioner filed through electronic mail, a Motion for Reconsideration (Re: Resolution dated 22 February 2021),[22] to which respondent posted her Comment/Opposition on May 21, 2021.[23]

Through Resolution dated September 17, 2021,[24] petitioner's Motion for Reconsideration of March 30, 2021 was granted. Accordingly, Exhibits "P-39," "P-71" to "P-93," and "P-114" to "P-145" were admitted as petitioner's evidence.

In the Resolution dated December 16, 2021,[25] this case was submitted for decision, considering respondent's Memorandum,[26] and petitioner's [27] Memorandum, filed on May 24, 2021 and November 5, 2021, respectively.

ISSUE[28]

Is petitioner entitled to a refund or to the issuance of tax credit certificate in the amount of ₱15,311,882.67 representing its alleged excess and/or unutilized input VAT attributable to its zero-rated sales for the first and second quarters of CY 2017?

ARGUMENTS

Petitioner argues that it satisfied all the conditions for the grant of input VAT refund anchored on Section 112 of the National Internal Revenue Code (NIRC), as amended. In particular: *first,* it is a VAT-registered person; *second,* it timely instituted both its administrative and judicial claims for input VAT refund; *third,* its sale of services to PPD Global Ltd. is subject to 0% VAT pursuant to Section 108(B)(2) of

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22 *Id.* at pp. 1244-1252.
23 *Id.* at pp. 1275-1279.
24 *Id.* at pp. 1285-1290.
25 *Id.* at p. 1319.
26 *Id.* at pp. 1263-1272.
27 *Id.* at pp. 1291-1316.
28 Par. 2.1, Stipulation of the Issue, JSFI, Docket (Vol. II), p. 718.

the same Code; *fourth,* it had duly substantiated its claimed input taxes in accordance with Sections 110 and 113 of the NIRC, as amended; *fifth,* said input taxes were directly attributable to such zero-rated sales; and *sixth,* said input taxes remained unutilized for the 1st and 2nd Quarters of CY 2017, as well as the succeeding taxable quarters. Thus, allowance of its refund claim of excess and unutilized input taxes, attributable to its zero-rated sales covering the 1st and 2nd Quarters of CY 2017, amounting to ₱15,311,882.66 is warranted.

Respondent counters that since petitioner performed its services to PPD Global Limited in the Philippines, the sale of such services is subject to 12% VAT under Section 108(A) of the NIRC, as amended.

Respondent further retorts that one of the requirements for VAT zero-rating under Section 108(B)(2) of the NIRC, as amended to prosper is that the refund claimant rendered its service to a foreign corporation not doing business in the Philippines, among others. Given that the entity to whom petitioner rendered its services, i.e., PPD Global Ltd. is doing business in the Philippines, it is not subject to 0% VAT.

On these accounts, respondent concludes that petitioner's input VAT refund claim must be rejected.

OUR RULING

We partially grant the Petition.

Section 112 of the NIRC, as amended by Republic Act No. 10963,[29] provides in part:

SEC. 112. *Refunds or Tax Credits of Input Tax.* –

[29] AN ACT AMENDING SECTIONS 5, 6, 24, 25, 27, 31, 32, 33, 34, 51, 52, 56, 57, 58, 74, 79, 84, 86, 90, 91, 97, 99, 100, 101, 106, 107, 108, 109, 110, 112, 114, 116, 127, 128, 129, 145, 148, 149, 151, 155, 171, 174, 175, 177, 178, 179, 180, 181, 182, 183, 186, 188, 189, 190, 191, 192, 193, 194, 195, 196, 197, 232, 236, 237, 249, 254, 264, 269, AND 288; CREATING NEW SECTIONS 51-A, 148-A, 150-A, 150-B, 237-A, 264-A, 264-B, AND 265-A; AND REPEALING SECTIONS 35, 62, AND 89; ALL UNDER REPUBLIC ACT 8424, OTHERWISE KNOWN AS THE NATIONAL INTERNAL REVENUE CODE OF 1997, AS AMENDED, AND FOR OTHER PURPOSES.

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> (A) *Zero-Rated or Effectively Zero-Rated Sales.* — Any VAT-registered person, whose sales are zero-rated or effectively zero-rated may, within two (2) years after the close of the taxable quarter when the sales were made, apply for the issuance of a tax credit certificate or refund of creditable input tax due or paid attributable to such sales, except transitional input tax, to the extent that such input tax has not been applied against output tax: *Provided, however,* That in the case of zero-rated sales under Section 106(A)(2)(a)(1), (2) and (b) and Section 108(B)(1) and (2), the acceptable foreign currency exchange proceeds thereof had been duly accounted for in accordance with the rules and regulations of the *Bangko Sentral ng Pilipinas* (BSP): *Provided, further,* That where the taxpayer is engaged in zero-rated or effectively zero-rated sale and also in taxable or exempt sale of goods of properties or services, and the amount of creditable input tax due or paid cannot be directly and entirely attributed to any one of the transactions, it shall be allocated proportionately on the basis of the volume of sales: *Provided, finally,* That for a person making sales that are zero-rated under Section 108(B)(6), the input taxes shall be allocated ratably between his zero-rated and non-zero-rated sales.
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> (C) *Period within which Refund of Input Taxes shall be Made.* — In proper cases, the Commissioner shall grant a refund for creditable input taxes within ninety (90) days from the date of submission of the official receipts or invoices and other documents in support of the application filed in accordance with Subsections (A) and (B) hereof: *Provided,* That should the Commissioner find that the grant of refund is not proper, the Commissioner must state in writing the legal and factual basis for the denial.
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> In case of full or partial denial of the claim for tax refund, the taxpayer affected may, within thirty (30) days from the receipt of the decision denying the claim, appeal the decision with the Court of Tax Appeals: *Provided, however,* That failure on the part of any official, agent, or employee of the BIR to act on the application within the ninety (90)-day period shall be punishable under Section 269 of this Code.

As it stands, the successful prosecution of an input VAT refund claim rests upon the concurrence of the following requisites:

As to timeliness of the taxpayer's filing of administrative and judicial claims:

1. the refund claim is filed with the BIR within two (2) years after the close of the taxable quarter when the sales were made;

2. in case of full or partial denial of the refund claim rendered within a period of ninety (90) days from the date of submission of the official receipts or invoices and other documents in support of the application, the judicial claim shall be filed with the Court within thirty (30) days from receipt of such decision;

As to taxpayer's registration with the BIR:

3. the taxpayer is a VAT-registered person;

As to taxpayer's output VAT:

4. the taxpayer is engaged in zero-rated or effectively zero-rated sales;
5. for zero-rated sales under Section 106(A)(2)(1) and (2); 106(B); and 108(B)(1) and (2), the acceptable foreign currency exchange proceeds have been duly accounted for in accordance with *Bangko Sentral ng Pilipinas* (BSP) rules and regulations;

As to taxpayer's input VAT:

6. the input taxes are not transitional input taxes;
7. the input taxes are due or paid;
8. the input taxes claimed are attributable to zero-rated or effectively zero-rated sales. However, where there are both zero-rated or effectively zero-rated sales and taxable or exempt sales, and the input taxes cannot be directly and entirely attributable to any of these sales, the input taxes shall be proportionately allocated based on sales volume; and
9. the input taxes have not been applied against output taxes during and in the succeeding quarters.

Jurisprudence, too, holds that substantiation and invoicing requirements under the law must be duly complied with, both as to claimant's zero-rated sales,[30] and its input VAT sought to be refunded.[31] Observance thereof is the only way to determine the veracity of the taxpayer's claims.[32]

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30 See *Commissioner of Internal Revenue v. Filminera Resources Corporation*, G.R. No. 236325, September 16, 2020.

31 See *Microsoft Philippines, Inc. v. Commissioner of Internal Revenue*, G.R. No. 180173, April 6, 2011.

32 See *Nippon Express (Philippines) Corporation v. Commissioner of Internal Revenue*, G.R. No. 191495, July 23, 2018.

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First and Second Requisites: petitioner timely filed its administrative and judicial claim for input VAT refund.

Section 112(A) of the NIRC, as amended by RA No. 10963, commands the taxpayer to file an administrative claim for input VAT refund, within two (2) years, following the close of the taxable quarter when the sales were made.

Section 112(C) of the same Code grants the BIR a period of ninety (90) days from date of submission of the official receipts or invoices and other supporting documents, to decide on the taxpayer's administrative claim for input VAT refund. At present, said invoices, official receipts, and other supporting documents are submitted upon the filing the taxpayer's administrative claim for input VAT refund.[33] In turn, the taxpayer, may appeal to the Court, within thirty (30) days: a) from receipt of adverse decision within said 90-day period; or b) after the lapse of said 90-day period, whichever is earlier. *Silicon Philippines, Inc. (formerly Intel Philippines Manufacturing, Inc.) v. Commissioner of Internal Revenue*[34] is on point:

> **The judicial claim shall be filed within a period of 30 days after the receipt of respondent's decision or ruling or after the expiration of the 120-day [now 90-day] period, whichever is sooner.**
>
> Aside from a specific exception to the mandatory and jurisdictional nature of the periods provided by the law, any claim filed in a period less than or beyond the 120+30 [now 90+30] days provided by the NIRC is outside the jurisdiction of the CTA.[35]

Petitioner's input VAT refund claim covers the 1st and 2nd quarters of CY 2017. Said quarters closed on March 31, 2017, and June 30, 2017, respectively. Counting two (2) years therefrom, petitioner

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33 See *Zuellig-Pharma Asia Pacific Ltd. Phils. ROHQ v. Commissioner of Internal Revenue*, G.R. No. 244154, July 15, 2020. Beginning June 11, 2014, or upon effectivity of Revenue Memorandum Circular (RMC) No. 54-2014, the documents are deemed complete upon filing of the taxpayer's administrative claim for input VAT refund.

34 G.R. No. 182737, March 2, 2016. This case involved a taxpayer's claim for input VAT refund under the *then* Section 112 of the NIRC. The jurisdiction of the CTA in Section 7 of RA No. 1125, as amended by RA No. 9282 *stands untouched* notwithstanding the amendments introduced by RA No. 10963 in Section 112(C) of the NIRC. Thus, this case may find application in input VAT refund claims covered by RA No. 10963.

35 Boldfacing supplied.

had until March 31, 2019, and June 30, 2019, respectively, to file its administrative claim for input VAT refund before the BIR. Thus, its administrative claim for input VAT refund covering said quarters was timely filed on March 29, 2019.[36]

The BIR had ninety (90) days from March 29, 2019, or until June 27, 2019 to decide on said administrative claim. There being no adverse decision received by petitioner as of June 27, 2019,[37] the latter's administrative claim for refund is deemed denied under Section 7(a)(2) of RA No. 1125, as amended by RA No. 9282. Hence, petitioner had another thirty (30) days therefrom, or until July 27, 2019 to seek judicial recourse. The timely filing of petitioner's petition for review on July 25, 2019 vested us with jurisdiction over this case.

Third Requisite: petitioner is a VAT-registered person/entity.

Petitioner is registered with the BIR as a VAT taxpayer with Tax Identification Number (TIN) 009-270-744-000 per Certificate of Registration No. OCN9RC0000520175 effective May 27, 2016.[38]

Fourth and Fifth Requisites: petitioner was able to establish, and partially substantiate that it is engaged in zero-rated sales for the 1st and 2nd Quarters of CY 2017.

Section 108(B)(1) and (2) of the NIRC, as amended, reads:

> SEC. 108. *Value-added Tax on Sale of Services and Use or Lease of Properties.* –
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> ...

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36 Par. 1.3, Stipulation of Facts, JSFI, docket (Vol. II), p. 718; and Exhibit "P-4," docket (Vol. III), p. 882.

37 While the BIR issued the Letter-Denial on June 24, 2019, it was only received by petitioner on August 16, 2019, or outside the BIR's ninety (90)-day period to decide its administrative claim for VAT refund. Hence, it is not the decision envisaged by Section 112(C) of the NIRC, as amended by RA No. 10963, as interpreted by jurisprudence. See Par. 1.5, Stipulation of Facts, JSFI. Docket (Vol. II), p. 718.

38 Exhibit "P-3." Docket (Vol. III), p. 880.

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(B) *Transactions Subject to Zero Percent (0%) Rate.* - The following **services performed in the Philippines by VAT-registered persons** shall be subject to zero percent (0%) rate:

(1) Processing, manufacturing or repacking goods for other persons doing business outside the Philippines which goods are subsequently exported, where the services are paid for in acceptable foreign currency and accounted for in accordance with the rules and regulations of the *Bangko Sentral ng Pilipinas* (BSP);

(2) Services other than those mentioned in the preceding paragraph rendered to a person engaged in business conducted outside the Philippines or to a nonresident person not engaged in business who is outside the Philippines when the services are performed, the consideration for which is paid for in acceptable foreign currency and accounted for in accordance with the rules and regulations of the *Bangko Sentral ng Pilipinas* (BSP);

...[39]

To accord 0% VAT on sales of services anchored on Section 108(B)(2) of the NIRC, as amended, the following conditions must concur: *one,* the refund claimant is a VAT-registered person; *two,* the refund claimant performed services to its client/s in the Philippines; *three,* said services must be other than processing, manufacturing or repacking goods; *four,* the entities to whom refund claimant's services were rendered are non-resident foreign corporations (NRFCs), or foreign corporations not doing business in the Philippines; and *five,* said services were paid for in foreign currency and duly accounted for pursuant to *Bangko Sentral ng Pilipinas* (BSP) rules and regulations.

Moreover, such sales of services must be substantiated by their corresponding VAT Official Receipts (ORs), compliant with invoicing and substantiation requirements, under Sections 113(A) and (B), and 237 of the NIRC, as amended, in relation to Section 4.113-1(A) and (B) of RR No. 16-2005,[40] which respectively state:

SEC. 113. *Invoicing and Accounting Requirements for VAT-registered Persons.* —

(A) *Invoicing Requirements.* — A VAT-registered person shall issue:

39 Boldfacing supplied.

40 See *Commissioner of Internal Revenue v. Filminera Resources Corporation, supra* note 30.

(1) A VAT invoice for every sale, barter or exchange of goods or properties; and

(2) A VAT official receipt for every lease of goods or properties, and for every sale, barter or exchange of services.

(B) *Information Contained in the VAT Invoice or VAT Official Receipt.* — The following information shall be indicated in the VAT invoice or VAT official receipt:

(1) A statement that the seller is a VAT-registered person, followed by his Taxpayer's Identification Number (TIN);

(2) The total amount which the purchaser pays or is obligated to pay to the seller with the indication that such amount includes the value-added tax: Provided, That:

(a) The amount of the tax shall be shown as a separate item in the invoice or receipt;

(b) If the sale is exempt from value-added tax, the term "VAT-exempt sale" shall be written or printed prominently on the invoice or receipt;

(c) If the sale is subject to zero percent (0%) value-added tax, the term **"zero-rated sale"** shall be written or printed prominently on the invoice or receipt;

(d) If the sale involves goods, properties or services some of which are subject to and some of which are VAT zero-rated or VAT-exempt, the invoice or receipt shall clearly indicate the break-down of the sale price between its taxable, exempt and zero-rated components, and the calculation of the value-added tax on each portion of the sale shall be shown on the invoice or receipt: *Provided,* That the seller may issue separate invoices or receipts for the taxable, exempt, and zero-rated components of the sale.

(3) The date of transaction, quantity, unit cost and description of the goods or properties or nature of the service; and

(4) In the case of sales in the amount of One thousand pesos (₱1,000) or more where the sale or transfer is made to a VAT-registered person, the name, business style, if any, address and Taxpayer Identification Number (TIN) of the purchaser, customer or client.

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SEC. 237. *Issuance of Receipts or Sales or Commercial Invoices.* — All persons subject to an internal revenue tax shall, for each sale or transfer of merchandise or for services rendered valued at Twenty-

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five pesos (₱25.00) or more, **issue duly registered receipts or sales or commercial invoices,** prepared at least in duplicate, showing the date of transaction, quantity, unit cost and description of merchandise or nature of service: ....

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SEC. 4.113-1. ***Invoicing Requirements.*** —

(A) A VAT-registered person shall issue: —

(1) A VAT invoice for every sale, barter or exchange of goods or properties; and

(2) A VAT official receipt for every lease of goods or properties, and for every sale, barter or exchange of services.

Only VAT-registered persons are required to print their TIN followed by the word "VAT" in their invoice or official receipts. Said documents shall be considered as a "VAT Invoice" or "VAT official receipt". All purchases covered by invoices/receipts other than VAT Invoice/VAT Official Receipt shall not give rise to any input tax.

VAT invoice/official receipt shall be prepared at least in duplicate, the original to be given to the buyer and the duplicate to be retained by the seller as part of his accounting records.

(B) *Information contained in VAT invoice or VAT official receipt.* — The following information shall be indicated in VAT invoice or VAT official receipt:

(1) A statement that the seller is a VAT-registered person, followed by his TIN;

(2) The total amount which the purchaser pays or is obligated to pay to the seller with the indication that such amount includes the VAT; *Provided,* That:

(a) The amount of tax shall be shown as a separate item in the invoice or receipt;

(b) If the sale is exempt from VAT, the term "VAT-exempt sale" shall be written or printed prominently on the invoice or receipt;

(c) If the sale is subject to zero percent (0%) VAT, the term "zero-rated sale" shall be written or printed prominently on the invoice or receipt;

> (d) If the sale involves goods, properties or services some of which are subject to and some of which are VAT zero-rated or VAT-exempt, the invoice or receipt shall clearly indicate the break-down of the sale price between its taxable, exempt and zero-rated components, and the calculation of the VAT on each portion of the sale shall be shown on the invoice or receipt. The seller has the option to issue separate invoices or receipts for the taxable, exempt, and zero-rated components of the sale.
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> (3) In the case of sales in the amount of one thousand peso (₱1,000.00) or more where the sale or transfer is made to a VAT-registered person, the name, business style, if any, address and TIN of the purchaser, customer or client, shall be indicated in addition to the information required in (1) and (2) of this Section.[41]

Petitioner satisfied the *five* conditions for VAT zero-rating under Section 108(B)(2) of the NIRC, as amended. For instance:

One, petitioner's status as a VAT-registered taxpayer may not be denied.[42]

Two, petitioner's witnesses Canama,[43] and ICPA Bambao testified that petitioner rendered services to its client PPD Global Limited in the Philippines.[44] Respondent likewise acknowledged[45] that petitioner's entire operation and services to PPD Global Limited in 2017, were performed in the Philippines. The BIR Letter dated June 24, 2019, too, exhaustively expounded on such services in this wise:

> Your audited financial statements for the year 2017 reveal that you incurred P123,911,187.00 as rental expense, P34,650.26 as utilities expense, and P16,093,926.00 as communication expense. Payroll and other related expense amounted to P334,690,072.00 as cost of service and P100,823,348.00 as operating and administrative expense. You have five hundred seventy-two (572) and four hundred eighty-three (483) local employees as of December 31, 2017 and 2016 respectively. The total cost incurred amounted to P600,169,159.00 which is already 80.53% of your total claimed cost

41 Emphasis supplied.
42 *Supra* note 38.
43 Answer to Question No. 41, Exhibit "P-42." Docket (Vol. II), pp. 441-442.
44 Answer to Question No. 13, Exhibit "P-149." *Id.* at p. 777.
45 Paragraphs 21 and 22, Answer (to Petitioner's Original Petition for Review dated July 24, 2019), docket (Vol. I), p. 122. Paragraphs 7 and 8, Answer (to Petitioner's Supplemental Petition for Review dated August 29, 2019), docket (Vol. I), p. 140.

> of service and operating expenses amounting to P745,264,275.00. Ocular information also disclosed that you are occupying three floors of Net Park Bldg. Therefore, it clearly shows that your entire operation and the service provided to your only customer, PPD Global Ltd., was performed in the Philippines. Following the situs-of-taxation principle, "**Consumption takes place where the service is performed.**"
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> ...[46]

Undoubtedly, petitioner performed its services to PPD Global Limited in the Philippines.

Three, in the Affiliate Service Agreement dated April 13, 2016[47] with Service Addendum (Exhibit A), executed by and between petitioner and PPD Global Limited, the former rendered management services, and conducted clinical feasibility assessments for the latter. These services do not constitute processing, manufacturing, or repacking of goods.

Four, *Commissioner of Internal Revenue vs. Deutsche Knowledge Services Pte. Ltd. (Deutsche)*,[48] discussed the minimum proof required to establish the NRFC status of a juridical entity:

> **For purposes of zero-rating under Section 108(B)(2) of the Tax Code, the claimant must establish the two components of a client's NRFC status, viz.: (1) that their client was established under the laws of a country not the Philippines or, simply, is not a domestic corporation; and (2) that it is not engaged in trade or business in the Philippines. To be sure, there must be sufficient proof of both of these components: showing not only that the clients are foreign corporations, but also are not doing business in the Philippines.**
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> To recall, the CTA found that the SEC Certification of Non-Registration of Company and Authenticated Articles of Association and/or Certificates of Registration/Good Standing/Incorporation sufficiently established the NRFC status of 11 of DKS's affiliates clients.

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46 Exhibit "P-39." Docket (Vol. III), pp. 1113-1114. Boldfacing in the original. Underscoring supplied.
47 Exhibits "P-10" and "P-11." Docket (Vol. III), pp. 898-910, and 912-913, respectively.
48 G.R. No. 234445, July 15, 2020.

The Court upholds these findings.

The Court accords the CTA's factual findings with utmost respect, if not finality, because the Court recognizes that it has necessarily developed an expertise on tax matters. Significantly, both the CTA Division and CTA En Banc gave credence to the aforementioned documents as sufficient proof of NRFC status. The Court shall not disturb its findings without any showing of grave abuse of discretion considering that the members of the tax court are in the best position to analyze the documents presented by the parties.

In any case, after a judicious review of the records, the Court still do not find any reason to deviate from the court a quo's findings. **To the Court's mind, the SEC Certifications of Non-Registration show that these affiliates are foreign corporations. On the other hand, the articles of association/certificates of incorporation stating that these affiliates are registered to operate in their respective home countries, outside the Philippines are prima facie evidence that their clients are not engaged in trade or business in the Philippines.**[49]

Similar to the documents produced by the refund claimant in *Deutsche,* petitioner presented: *first,* the Securities and Exchange Commission (SEC)'s Certificate of Non-Registration of Company dated February 12, 2019,[50] attesting that the records of the SEC "do not show the registration of PPD Global Limited as a corporation or as a partnership"; and *second,* apostilled Articles of Association of PPD Global Limited,[51] along with apostilled Certificates of Fiscal Residence 2017, issued by the HM Revenue and Customs of the United Kingdom in favor of PPD Global Limited.[52] Hence, the recipient of petitioner's services *i.e.,* PPD Global Limited, is a NRFC.

Five, in its quarterly VAT Returns for the 1st and 2nd quarters of CY 2017, petitioner reported zero-rated sales/receipts in the total amount of ₱409,629,435.84, broken down as follows:

Exhibit No.	Quarter (CY 2017)	Zero-rated Sales
"P-6"	1st	₱ 119,753,639.72
"P-7"	2nd	289,875,796.12
		₱ 409,629,435.84

49 Boldfacing supplied.
50 Exhibit "P-18." Docket (Vol. III), p. 952.
51 Exhibit "P-12." *Id.* at pp. 915 to 934.
52 Exhibits "P-13" to "P-17." *Id.* at pp. 936 to 937, 939 to 940, 942 to 943, 945 to 946, 948 to 950, respectively.

By petitioner's presentation of various Certification of Inward Remittances issued by Hong Kong Shanghai Banking Corporation (HSBC), it successfully established that PPD Global Limited paid petitioner's services in foreign currency, and was accounted under BSP rules and regulations, as detailed below:

Exhibit No.	Date Remitted	Amount Remitted (US$)	Amount received, net of bank charges (US$)
"P-19"[53]	12-Dec-16	2,500,000.00[54]	2,499,990.00
"P-20"[55]	16-Jan-17	1,004,100.00	1,004,090.00
"P-21"[56]	8-Feb-17	2,300,000.00	2,299,990.00
"P-22"[57]	9-Mar-17	2,300,000.00	2,299,990.00
"P-23"[58]	11-Apr-17	1,200,000.00	1,199,990.00

To substantiate its zero-rated sales, petitioner presented its Summary List of Sales (SLS) for the 1st and 2nd quarters of CY 2017,[59] along with the supporting VAT zero-rated official receipts (ORs).[60] Yet, an examination thereof shows that petitioner's reported zero-rated sales of ₱409,629,435.84, must be diminished by the amount of US$1,400,453.55, with peso equivalent of ₱69,736,756.95, because the OR pertaining thereto was dated December 22, 2016,[61] or outside the period of the present claim.

Therefore, the amount of ₱339,892,678.89 corresponds to petitioner's *valid* zero-rated sales for the 1st and 2nd Quarters of CY 2017, pursuant to Section 108(B)(2) of the NIRC, as amended, as computed below:

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53 Exhibit "P-20." *Id.* at p. 956.

54 This figure is composed of: a) USD 1,400,453.55 (Exhibit "P-44"); and b) USD 1,099,546.45 (Exhibit "P-49"). Only figure "a" was included in the present claim, whereas figure "b" was reported in petitioner's Quarterly VAT Return covering the 4th Quarter of CY 2016. See Answer to Question No. 19, Judicial Affidavit of ICPA Bambao dated November 4, 2020, Exhibits "P-149" and "P-149-1," docket (Vol. II), pp. 779-780.

55 *Supra* note 53.

56 Exhibit "P-21." Docket (Vol. III), p. 958.

57 Exhibit "P-22." *Id.* at p. 960.

58 Exhibit "P-23." *Id.* at p. 962.

59 Exhibits "P-8" and "P-9." *Id.* at pp. 892-893 and 895-896, respectively.

60 Exhibits "P-44" to "P-48." These ORs are contained in the Universal Serial Bus drive marked as Exhibit "P-150," admitted by the Court as petitioner's evidence in the Resolution dated February 22, 2021, *supra* note 21.

61 Exhibit "P-44."

CY 2017	1st Quarter	2nd Quarter	Total
Reported Zero-rated sales	₱ 119,753,639.72	₱ 289,875,796.12	₱ 409,629,435.84
Less: Disallowed zero-rated sales	69,736,756.95		69,736,756.95
Valid zero-rated sales	**₱50,016,882.77**	**₱289,875,796.12**	**₱339,892,678.89**

Respondent asserts that: *first,* since petitioner's services to PPD Global Limited was rendered in the Philippines, it is subject to 12% VAT under Section 108(A) of the NIRC, as amended; and *second,* PPD Global Limited is an entity doing business in the Philippines. On these accounts, petitioner's refund claim must be denied.

We are not swayed.

The VAT system generally uses the destination principle as basis for the jurisdictional reach of the tax.[62] Under the destination principle, goods and services are taxes only in the country where they are consumed.[63] In relation to services, consumption takes place upon rendition of the services.[64] Precisely, Section 105,[65] in relation to Section 108(A)[66] of the NIRC, as amended, imposes 12% VAT on the gross receipts derived from sales of services performed in the Philippines.

However, the destination principle is subject to exceptions. In particular, Section 108(B)(2) of the NIRC, as amended explicitly confers 0% VAT on sales of services performed by a VAT-registered person in the Philippines, in favor of foreign corporations not doing business in the Philippines, the consideration of which is paid for in

62 See *Commissioner of Internal Revenue v. Placer Dome Technical Services (Phils.), Inc.,* G.R. No. 164365, June 8, 2007.

63 *Commissioner of Internal Revenue v. Filminera Resources Corporation, supra* note 30.

64 See *Commissioner of Internal Revenue v. American Express International, Inc.,* G.R. No. 152609, June 29, 2005.

65 SEC. 105. ***Persons Liable.*** - Any person who, in the course of trade or business, sells barters, exchanges, leases goods or properties, renders services, and any person who imports goods shall be subject to the value-added tax (VAT) imposed in Sections 106 to 108 of this Code.

...

66 SEC. 108. ***Value-added Tax on Sale of Services and Use or Lease of Properties.*** -

(A) ***Rate and Base of Tax.*** - There shall be levied, assessed and collected, a value-added tax equivalent to twelve percent (12%) of gross receipts derived from the sale or exchange of services, including the use or lease of properties.

The phrase ***"sale or exchange of services"*** means the performance of all kinds of services in the Philippines for others for a fee, remuneration or consideration, ...

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foreign currency, and duly accounted for pursuant to BSP rules and regulations.[67]

Petitioner exhibited compliance with all the conditions set forth in Section 108(B)(2) of the NIRC, as amended; thus, its sales of services to PPD Global Limited must be accorded 0% VAT, notwithstanding petitioner's performance of said services in the Philippines.

Neither is petitioner's client PPD Global Limited doing business in the Philippines. Again, *Deutsche* recognized the pertinent foreign articles of incorporation and/or association, side by side with the SEC Certificate of Non-Registration as *prima facie* proof that an entity is a NRFC. These documents were produced by petitioner; hence, PPD Global Limited is a NRFC for purposes of VAT zero-rating under Section 108(B)(2) of the NIRC, as amended.

Sixth requisite: the input VAT being claimed are not transitional input taxes.

In its Quarterly VAT Return for the 1st and 2nd quarters of CY 2017, petitioner declared total input VAT of ₱15,311,882.67, broken down as follows:

CY 2017	1st Quarter	2nd Quarter	TOTAL
	"P-6"	"P-7"	
Input VAT due on current purchases of goods			
Input tax on purchase of capital goods not exceeding ₱1M	₱ -	₱ 60,814.29	₱ 60,814.29
Input tax on domestic purchases of goods other than capital goods	70,509.06	76,833.07	147,342.13
Sub-total	₱ 70,509.06	₱ 137,647.36	₱ 208,156.42
Input VAT paid on:			
Input tax on domestic purchases of services	5,628,876.67	8,285,155.36	13,914,032.03
Total Input VAT on current purchases	₱ 5,699,385.73	₱ 8,422,802.72	₱ 14,122,188.45

[67] See *Commissioner of Internal Revenue v. Macquarie Offshore Services Pty., Ltd. – Philippine Branch*, G.R. No. 225169, October 6, 2021; *Sitel Philippines Corporation (formerly Clientlogic Phils., Inc.) v. Commissioner of Internal Revenue*, G.R. No. 201326, February 8, 2017; and *Accenture, Inc. v. Commissioner of Internal Revenue*, G.R. No. 190102, July 11, 2012.

Input VAT Due on Capital Goods exceeding ₱1M			
Deferred from previous quarter	₱ 4,531,195.23	₱ 3,936,348.12	₱ 8,467,543.35
Less: Deferred for the succeeding period	3,936,348.12	3,341,501.01	7,277,849.13
Amortized input VAT on capital goods exceeding ₱1M	₱ 594,847.11	₱ 594,847.11	₱ 1,189,694.22
Total input VAT during the period	**₱ 6,294,232.84**	**₱ 9,017,649.83**	**₱15,311,882.67**

Said input taxes are not transitional input taxes. Section 111(A)[68] of the NIRC, as amended, states that transitional input taxes are realized when: *one,* a person not previously liable for VAT, becomes liable for said tax; and *two,* on newly VAT-Registered persons. Transitional input tax credit operates to benefit newly VAT-registered persons, whether or not they previously paid taxes in the acquisition of their beginning inventory of goods, materials and supplies. During that period of transition from non-VAT to VAT status, the transitional input tax credit serves to alleviate the impact of the VAT on the taxpayer.[69] None of these circumstances apply to petitioner.

Seventh requisite: petitioner had input taxes due and paid which are attributable to its zero-rated sales.

To recall, petitioner sought to refund input VAT for the 1st and 2nd Quarters of CY 2017 in the sum of ₱15,311,882.67,[70] with the following breakdown: a) input VAT on current purchases amounting to ₱14,122,188.45; and b) amortized input VAT on purchases of capital goods exceeding ₱1 Million, in the amount of ₱1,189,694.22.

To properly validate said input VAT, Section 110(A) of the NIRC, as amended, must be observed, which provides:

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[68] SEC. 111. *Transitional/Presumptive Input Tax Credits.* -

(A) *Transitional Input Tax Credits.* - A person who becomes liable to value-added tax or any person who elects to be a VAT-registered person shall, subject to the filing of an inventory according to the rules and regulations prescribed by the Secretary of Finance, upon recommendation of the Commissioner, be allowed input tax on his beginning inventory of goods, materials and supplies equivalent to two percent (2%) of the value of such inventory or the actual value-added tax paid on such goods, materials and supplies, whichever is higher, which shall be creditable against the output tax.

[69] See *Fort Bonifacio Development Corporation v. Commissioner of Internal Revenue,* G.R. No. 173425, September 4, 2012.

[70] See immediately preceding table.

SEC. 110. *Tax Credits.* –

(A) *Creditable Input Tax.* –

(1) Any input tax evidenced by a VAT invoice or official receipt issued in accordance with Section 113 hereof on the following transactions shall be creditable against the output tax:

(a) Purchase or importation of goods:

(i) For sale; or

(ii) For conversion into or intended to form part of a finished product for sale including packaging materials; or

(iii) For use as supplies in the course of business; or

(iv) For use as materials supplied in the sale of service; or

(v) For use in trade or business for which deduction for depreciation or amortization is allowed under this Code.

(b) Purchase of services on which a value-added tax has actually been paid.

(2) The input tax on domestic purchase or importation of goods or properties by a VAT-registered person shall be creditable:

(a) To the purchaser upon consummation of sale and on importation of goods or properties; and

(b) To the importer upon payment of the value-added tax prior to the release of the goods from the custody of the Bureau of Customs.

Provided, That the input tax on goods purchased or imported in a calendar month for use in trade or business for which deduction for depreciation is allowed under this Code, shall be spread evenly over the month of acquisition and the fifty-nine (59) succeeding months if the aggregate acquisition cost for such goods, excluding the VAT component thereof, exceeds One million pesos (₱1,000,000): *Provided, however,* That if the estimated useful life of the capital good is less than five (5) years, as used for depreciation purposes, then the input VAT shall be spread over such a shorter period: *Provided, finally,* That in the case of purchase of services, lease or use of properties, the input tax shall be creditable to the purchaser, lessee or licensee upon payment of the compensation, rental, royalty or fee.

Section 110(A) of the NIRC, as amended is implemented by Sections 4.110-1 to 4.110-3 of RR No. 16-2005, stating as follows:

> SECTION 4.110-1. *Credits For Input Tax.* — "Input tax" means the VAT due on or paid by a VAT-registered person on importation of goods or local purchases of goods, properties, or services, including lease or use of properties, in the course of his trade or business. It shall also include the transitional input tax and the presumptive input tax determined in accordance with Sec. 111 of the Tax Code.
>
> It includes input taxes which can be directly attributed to transactions subject to the VAT plus a ratable portion of any input tax which cannot be directly attributed to either the taxable or exempt activity.
>
> Any input tax on the following transactions evidenced by a VAT invoice or official receipt issued by a VAT-registered person in accordance with Secs. 113 and 237 of the Tax Code shall be creditable against the output tax:
>
> (a) Purchase or importation of goods
>
> (1) For sale; or
>
> (2) For conversion into or intended to form part of a finished product for sale, including packaging materials; or
>
> (3) For use as supplies in the course of business; or
>
> (4) For use as raw materials supplied in the sale of services; or
>
> (5) For use in trade or business for which deduction for depreciation or amortization is allowed under the Tax Code,
>
> (b) Purchase of real properties for which a VAT has actually been paid;
>
> (c) Purchase of services in which a VAT has actually been paid;
>
> . . .
>
> SECTION 4.110-2. *Persons Who Can Avail of the Input Tax Credit.* — The input tax credit on importation of goods or local purchases of goods, properties or services by a VAT-registered person shall be creditable:

(a) To the importer upon payment of VAT prior to the release of goods from customs custody;

(b) To the purchaser of the domestic goods or properties upon consummation of the sale; or

(c) To the purchaser of services or the lessee or licensee upon payment of the compensation, rental, royalty or fee.

SECTION 4.110-3. *Claim for Input Tax on Depreciable Goods.* — Where a VAT-registered person purchases or imports capital goods, which are depreciable assets for income tax purposes, the aggregate acquisition cost of which (exclusive of VAT) in a calendar month exceeds One Million pesos (₱1,000,000.00), regardless of the acquisition cost of each capital good, shall be claimed as credit against output tax in the following manner:

(a) If the estimated useful life of a capital good is five (5) years or more — The input tax shall be spread evenly over a period of sixty (60) months and the claim for input tax credit will commence in the calendar month when the capital good is acquired. The total input taxes on purchases or importations of this type of capital goods shall be divided by 60 and the quotient will be the amount to be claimed monthly.

(b) If the estimated useful life of a capital good is less than five (5) years — The input tax shall be spread evenly on a monthly basis by dividing the input tax by the actual number of months comprising the estimated useful life of the capital good. The claim for input tax credit shall commence in the calendar month that the capital goods were acquired.

Where the aggregate acquisition cost (exclusive of VAT) of the existing or finished depreciable capital goods purchased or imported during any calendar month does not exceed One million pesos (₱1,000,000.00), the total input taxes will be allowable as credit against output tax in the month of acquisition; Provided, however, that the total amount of input taxes (input tax on depreciable capital goods plus other allowable input taxes) allowed to be claimed against the output tax in the quarterly VAT Returns shall be subject to the limitation prescribed under Sec. 4.110-7 of these Regulations.

The aggregate acquisition cost of a depreciable asset in any calendar month refers to the total price agreed upon for one or more assets acquired and not on the payments actually made during the calendar month. Thus, an asset acquired in installment for an acquisition cost of more than ₱1,000,000.00 will be subject to the amortization of input tax despite the fact that the monthly payments/installments may not exceed ₱1,000,000.00.

...

If the depreciable capital good is sold/transferred within a period of five (5) years or prior to the exhaustion of the amortizable input tax thereon, the entire unamortized input tax on the capital goods sold/transferred can be claimed as input tax credit during the month/quarter when the sale or transfer was made but subject to the limitation prescribed under Sec. 4.110-7 of these Regulations.

Moreover, Section 4.110-8 of RR No. 16-2005 lays down the substantiation requirements of input tax credits in this wise:

SECTION 4.110-8. *Substantiation of Input Tax Credits.* –

(a) Input taxes for the importation of goods or the domestic purchase of goods, properties or services is made in the course of trade or business, whether such input taxes shall be credited against zero-rated sale, non-zero-rated sales, or subjected to the 5% Final Withholding VAT, must be substantiated and supported by the following documents, and must be reported in the information returns required to be submitted to the Bureau:

(1) For the importation of goods – import entry or other equivalent document showing actual payment of VAT on the imported goods.

(2) For the domestic purchase of goods and properties – invoice showing the information required under Secs. 113 and 237 of the Tax Code.

(3) For the purchase of real property – public instrument i.e., deed of absolute sale, deed of conditional sale, contract/agreement to sell, etc., together with VAT invoice issued by the seller.

(4) For the purchase of services – official receipt showing the information required under Secs. 113 and 237 of the Tax Code.

A cash register machine tape issued to a registered buyer shall constitute valid proof of substantiation of tax credit only if it shows the information required under Secs. 113 and 237 of the Tax Code.

Indeed, to be considered for refund, the input VAT claimed must be duly substantiated by supporting documents prescribed under Section 4.110-8 of RR No. 16-2005. Additionally, said documents should adhere with the invoicing requirements under

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Sections 113(A) and (B), and 237 of the NIRC of 1997, as amended, and implemented by Section 4.113-1(A) and (B) of RR No. 16-2005.

a) Input VAT on current purchases amounting to ₱14,122,188.45

Petitioner presented VAT ORs and sales invoices issued by its suppliers.[71] Yet, an inspection thereof shows that input VAT amounting to ₱2,400,840.15 must be disallowed[72] for not being properly substantiated by supporting documents, as prescribed under Sections 110(A), 113(A) and (B), and 237 of the NIRC, as amended, as implemented by Sections 4.110-1, 4.110-2, 4.110-8, 4.113-1(A) and (B) of RR No. 16-2005, as amended, as detailed below:

	Particulars	Exhibit Reference	1st Quarter of CY 2017	2nd Quarter of CY 2017	Total
1	Purchases supported by documents with incorrect business style	Annex 1, P-71; Annex 2, P-114 to P-116	1,320.00	87,115.58	88,435.5
2	Purchases supported by documents with incomplete name and address of petitioner and no nature of payment/services	Annex 1, P-72 to P-73	29,399.68		29,399.6
3	Purchases supported by documents with incomplete address of petitioner and no nature of payment/services	Annex 2, P-117 to to P-118		5,859.71	5,859.7
4	Purchases supported by document with incomplete address and no nature of payment/services and with altered VATable and VAT amounts	Annex 2, P-119		4,485.31	4,485.3
5	Purchases supported by documents with incomplete name and address of petitioner	Annex 2, P-120		6,776.46	6,776.4
6	Purchases supported by documents with no nature of payment/services	Annex 1, P-74 to P-81; Annex 2, P-121 to P-128	476,401.46	185,392.78	661,794.2
7	Purchases supported by documents with no TIN	Annex 1, P-82; Annex 2, P-129 to 131	313,704.00	183,797.63	497,501.6

71 Exhibits "P-54" to "P-145."
72 Exhibit "P-42." Docket (Vol. II), p. 757.

Sections 113(A) and (B), and 237 of the NIRC of 1997, as amended, and implemented by Section 4.113-1(A) and (B) of RR No. 16-2005.

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2	Purchases supported by documents with incomplete name and address of petitioner and no nature of payment/services	Annex 1, P-72 to P-73	29,399.68		29,399.68
3	Purchases supported by documents with incomplete address of petitioner and no nature of payment/services	Annex 2, P-117 to to P-118		5,859.71	5,859.71
4	Purchases supported by document with incomplete address and no nature of payment/services and with altered VATable and VAT amounts	Annex 2, P-119		4,485.31	4,485.31
5	Purchases supported by documents with incomplete name and address of petitioner	Annex 2, P-120		6,776.46	6,776.46
6	Purchases supported by documents with no nature of payment/services	Annex 1, P-74 to P-81; Annex 2, P-121 to P-128	476,401.46	185,392.78	661,794.24
7	Purchases supported by documents with no TIN	Annex 1, P-82; Annex 2, P-129 to 131	313,704.00	183,797.63	497,501.63

71 Exhibits "P-54" to "P-145."
72 Exhibit "P-42." Docket (Vol. II), p. 757.

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8	Purchases supported by documents with incorrect address	Annex 2, P-132 to P-133		73,148.78	73,148.78
9	Purchases supported by document with incorrect name and TIN of petitioner and with no nature of payment/services	Annex 2, P-134		4,060.80	4,060.80
10	Purchases supported by document with incorrect name, TIN and address of petitioner and with no nature of payment/services	Annex 1, P-83	11,518.05		11,518.05
11	Out of period purchases	Annex 1, P-84 to P-93; Annex 2, P-135 to 145	145,265.20	106,103.69	251,368.89
12	Unsupported purchases		355,236.50	349,822.65	705,059.15
13	Unsupported and out of period purchases		54,067.71	7,364.16	61,431.87
	TOTAL		₱1,386,912.60	₱1,013,927.55	₱2,400,840.15

b) Amortized input VAT on purchases of capital goods exceeding ₱1 Million, amounting to ₱1,189,694.22

The amount of ₱1,189,694.22, representing amortization of input VAT on purchases of capital goods exceeding ₱1 Million was determined, as follows:

CY 2017	1st Quarter	2nd Quarter	Total
Deferred from previous quarter	₱ 4,531,195.23	₱ 3,936,348.12	₱ 8,467,543.35
Less: Deferred for the succeeding period	3,936,348.12	3,341,501.01	7,277,849.13
Amortized input tax on capital goods exceeding ₱1M	**₱ 594,847.11**	**₱ 594,847.11**	**₱1,189,694.22**

However, petitioner failed to substantiate the same with supporting documents. ICPA Bambao likewise observed that the amount of ₱1,189,694.22, pertaining to the realized portion of the deferred input VAT from purchases of capital goods exceeding ₱1M was unsupported.[73] As such, disallowance thereof is in order.

Ergo, petitioner's total reported input VAT of ₱15,311,882.67 for the 1st and 2nd quarters of CY 2017, must be reduced by the total disallowances thereon amounting to ₱3,590,534.37. This leaves the

[73] ICPA Report. Docket (Vol. III), p. 1181.

amount of ₱11,721,348.30 as petitioner's *valid* input VAT for said periods, as computed below:

CY 2017	1st Quarter	2nd Quarter	Total
Reported Input VAT	₱ 6,294,232.84	₱ 9,017,649.83	₱ 15,311,882.67
Less: Input VAT disallowances on:			
Purchases of goods and services other than capital goods	₱ 1,386,912.60	₱ 1,013,927.55	₱ 2,400,840.15
Purchases of capital goods	594,847.11	594,847.11	1,189,694.22
Total disallowances	₱ 1,981,759.71	₱ 1,608,774.66	₱ 3,590,534.37
Valid input VAT	**₱ 4,312,473.13**	**₱7,408,875.17**	**₱11,721,348.30**

Eighth requisite: petitioner had input taxes due and paid which are attributable to its zero-rated sales.

Section 112(A) of the NIRC, as amended, requires that the input taxes claimed are attributable to zero-rated or effectively zero-rated sales. However, the same provision recognizes that where there are zero-rated or effectively zero-rated sale and taxable sales or exempt sales, and the input taxes cannot be directly and entirely attributable to any of these sales, the input taxes shall be proportionately allocated based on the total sales volume.

Considering that petitioner had only zero-rated sales, its valid input VAT of ₱11,721,348.30 may be attributed thereto. Out of petitioner's reported zero-rated sales of ₱409,629,435.84, only the amount of ₱339,892,678.89 is its *valid* zero-rated sales. Therefore, petitioner's refund of valid input VAT, attributable to said *valid* zero-rated sales, to the extent of ₱9,210,043.50, must be allowed, computed as follows:

CY 2017	1st Quarter	2nd Quarter	Total
Valid Input VAT	₱ 4,312,473.13	₱ 7,408,875.17	₱ 11,721,348.30
Divide by Reported Zero-Rated Sales	119,753,639.72	289,875,796.12	409,629,435.84
Multiply by Valid Zero-Rated Sales	50,016,882.77	289,875,796.12	339,892,678.89
Valid Input VAT attributable to Valid Zero-Rated Sales	**₱ 1,801,168.33**	**₱ 7,408,875.17**	**₱ 9,210,043.50**

Ninth requisite: claimed input taxes were not applied against output taxes in the succeeding quarters.

Petitioner's reported input VAT of ₱15,311,882.66 for the 1st and 2nd quarters of CY 2017 were not applied against any output VAT in the succeeding quarters. Said amount also remained unutilized because it was deducted as "VAT Refund/TCC claimed" in its Quarterly VAT Return for the 4th quarter of CY 2018.[74] To be precise, the subject claim no longer formed part of the excess input VAT of ₱40,203,068.11[75] as of the end of the 4th quarter of CY 2018, which was carried over/applied to the 1st quarter of CY 2019.[76] This negates the possibility of petitioner's application of its input VAT refund in this case to its future output VAT liability.

All things considered, petitioner is entitled to refund of excess and unutilized input VAT, imputable to its zero-rated sales for the 1st and 2nd Quarters of CY 2017, to the extent of ₱9,210,043.50.

WHEREFORE, the Petition for Review dated July 24, 2019 filed by PPD Pharmaceutical Development Philippines Corp., is **PARTIALLY GRANTED.** Accordingly, respondent is **DIRECTED** to refund petitioner, the amount of ₱9,210,043.50, representing the latter's excess and unutilized input VAT, attributable to its zero-rated sales for the 1st and 2nd quarters of CY 2017.

SO ORDERED.

Marian Ivy F. Reyes-Fajardo
MARIAN IVY F. REYES-FAJARDO
Associate Justice

We Concur:

ROMAN G. DEL ROSARIO
Presiding Justice

[74] Line 23D, Exhibit "P-31." Docket (Vol. III), p. 986.
[75] Line 29, Exhibit "P-31." *Ibid.*
[76] Line 20A, Exhibit "P-32." *Id.* at p. 988.

CATHERINE T. MANAHAN
Associate Justice

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, it is hereby certified that the conclusions in the above Decision were reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

ROMAN G. DEL ROSARIO
Presiding Justice