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

March 4, 2019

REVENUE MEMORANDUM CIRCULAR NO. 34-2019

SUBJECT : **Clarification on the Treatment and Reporting Requirements of Input Tax as of December 31, 2018 Relative to Value-Added Tax (VAT) Exempt Medicines Pursuant to Section 109 (1) (AA) of the National Internal Revenue Code of 1997, as Amended by Republic Act (RA) No. 10963 or the Tax Reform for Acceleration and Inclusion (TRAIN) Law**

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

This Circular is issued to clarify the treatment and reporting requirements of input tax pertaining to drugs and medicines prescribed for diabetes, high-cholesterol and hypertension purchased on or before December 31, 2018 by manufacturers, distributors, wholesalers and retailers which remained unsold as of December 31, 2018.

Pursuant to Section 34 of RA No. 10963 or the TRAIN Law, the sale of drugs and medicines prescribed for diabetes, high-cholesterol and hypertension shall be exempt from VAT beginning January 1, 2019. Considering that input tax attributable to VAT-exempt sale cannot be passed on to the buyer, the following shall be strictly observed by all concerned:

1. Inventory list as of December 31, 2018 of drugs and medicines which became VAT-exempt beginning January 1, 2019 shall be required from all manufacturers, wholesalers, distributors and retailers regardless of whether or not there is an existing excess input tax.

2. The inventory list shall include all drugs and medicines on hand, imported and locally manufactured, using the format prescribed in ANNEX "A".

3. The inventory list shall be filed with the Large Taxpayer Service/Revenue District Office where the taxpayer is registered on or before April 25, 2019 as an attachment to the Quarterly VAT Declaration Form (BIR Form 2550Q) for the first quarter of 2019.

4. As the sale of VAT-exempt drugs and medicines are made, the input tax corresponding to the sale shall be closed to cost or expense.

Illustration 1:

On December 2018, the taxpayer purchased medicines prescribed for Diabetes, High-Cholesterol and Hypertension in the amount of P300,000.00 which were sold on January 2019 with 30% mark-up. As of December 31, 2018, the taxpayer's excess input tax credit is P150,000.00 and the summary of the taxpayer's inventory list shows the following:

		Amount	Input Tax
Imported Medicines			
Medicines Prescribed for Diabetes, High-Cholesterol & Hypertension	P	300,000.00	36,000.00
Other Imported Medicines		700,000.00	84,000.00
Locally Manufactured Medicines			
Medicines Prescribed for Diabetes, High-Cholesterol & Hypertension		-	-
Other Locally Manufactured Medicines		250,000.00	30,000.00
TOTAL	**P**	**1,250,000.00**	**150,000.00**

The accounting entries to record the transactions will be:

To record the purchase made in December 2018:

Inventory	300,000.00	
Input Tax	36,000.00	
Cash or Accounts Payable		336,000.00

To record the sale made in January 2019:

Cash or Account Receivable	390,000.00	
Sales / Revenue		390,000.00

To record cost of sale / deduction from inventory:

Cost of Sale	300,000.00	
Inventory		300,000.00

To close the corresponding input tax allocable to VAT-exempt sale:

Cost of Sale / Expense	36,000.00	
Input Tax		36,000.00

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5. When filing BIR Form 2550M/2550Q, the input tax corresponding to the sale shall be deducted from the taxpayer's allowable input tax as shown below:

		Sales/Receipts for the Month (Exclusive of V)		Output Tax Due for the Month
12 Vatable Sales/Receipt- Private (Sch.1)	12A		12B	-
13 Sales to Government	13A		13B	
14 Zero Rated Sales/Receipts	14			
15 Exempt Sales/Receipts	15	390,000.00		
16 Total Sales/Receipts and Output Tax Due	16A	390,000.00	16B	-
17 Less: Allowable Input Tax				
17A Input Tax Carried Over from Previous Period			17A	150,000.00
17B Input Tax Deferred on Capital Goods Exceeding P1Million from Previous Period			17B	
17C Transitional Input Tax			17C	
17D Presumptive Input Tax			17D	
17E Others			17E	
17F Total (Sum of Item 17A,17B,17C,17D &17E)			17F	150,000.00
18 Current Transactions		Purchases		
18A/B Purchase of Capital Goods not exceeding P1Million (see sch.2)	18A		18B	
18C/D Purchase of Capital Goods exceeding P1Million (see sch.3)	18C		18D	
18E/F Domestic Purchases of Goods Other than Capital Goo	18E		18F	-
18G/H Importation of Goods Other than Capital Goods	18G		18H	
18I/J Domestic Purchase of Services	18 I		18J	
18K/L Services rendered by Non-residents	18K		18L	
18M Purchases Not Qualified for Input Tax	18M			
18N/O Others	18N		18O	
18P Total Current Purchases (Sum of Item 18A, 18C, 18E, 18G, 18I, 18K, 18M & 18N)	18P	-		
19 Total Available Input Tax (Sum of Item 17F,18B,18D,18F,18H,18J,18L & 18O)			19	150,000.00
20 Less: Deductions from Input Tax				
20A Input Tax on Purchases of Capital Goods exceeding P1Million deferred for the succeeding period (Sch.3)			20A	
20B Input Tax on Sale to Govt. closed to expense (Sch.4)			20B	
20C Input Tax allocable to Exempt Sales (Sch.5)			20C	36,000.00
20D VAT Refund/TCC claimed			20D	
20E Others			20E	
20F Total (Sum of Item 20A,20B,20C,20D & 20E)			20F	36,000.00
21 Total Allowable Input Tax (Item19 less Item 20F)			21	114,000.00
22 Net VAT Payable (Item 16B less Item 21)			22	(114,000.00)

All concerned revenue officials and employees are hereby enjoined to give this circular as wide a publicity as possible.

CAESAR R. DULAY
Commissioner of Internal Revenue

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