

# Tax Updates

May 15, 2025  
Issue: RCC2- 25



**Romero & Co. CPA's**

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## INSIDE THIS ISSUE

RR No. 3-2025

## IMPOSING THE VALUE-ADDED TAX (VAT) ON DIGITAL SERVICES

**Digital Services** refers to any service that is supplied over the internet or other electronic network with the use of information technology and where the supply of the service is essentially automated. It shall include, but not limited to:

- Online search engine
- Cloud service
- Online platform
- Online marketplace or e-marketplace
- Online media and advertising
- Digital goods.

**Digital goods** are intangible items delivered in digital form, such as e-books, music, videos, software, apps, online courses, and e-games. They include digital content purchases, subscriptions, digital art, software services and maintenance, content licensing, telecom and broadcasting services, and virtual assets.

**Digital services** include cloud and IT infrastructure (e.g., data storage, web hosting), e-commerce and payment systems, digital marketing, communication and collaboration tools, e-learning and networking platforms, data analytics and AI, cybersecurity, VPN and encryption, system maintenance, online consultations, and interactive media like online gaming and AR/VR experiences.

A Value-Added Tax (VAT) of 12% shall be imposed on the gross sales of Digital Service Providers (DSPs) derived from the supply or delivery of digital services in the Philippines, pursuant to Section 108 of the Tax Code. This encompasses all forms of sale or exchange of services conducted through digital platforms in the country.

Digital services provided by a nonresident DSP are subject to 12% VAT if consumed in the Philippines.

**The following information, among others, may be used to determine whether the digital service is consumed or used in the Philippines:**

PAYMENT INFORMATION	<ul style="list-style-type: none"><li>• Credit card information</li><li>• Bank account details</li></ul>
RESIDENCE INFORMATION OF THE BUYER	<ul style="list-style-type: none"><li>• Home address</li><li>• Billing address</li></ul>
ACCESS INFORMATION	<ul style="list-style-type: none"><li>• Mobile country code of SIM card</li><li>• Internet Protocol address</li></ul>
ANY OTHER INFORMATION TO ESTABLISH THE MOST RELIABLE DETERMINATION OF THE BUYER'S LOCATION	<ul style="list-style-type: none"><li>• Business agreement</li><li>• Predominant place of consumption</li><li>• Language of digital content supplied.</li></ul>

**Note:** If such information is contradictory, the DSPs should obtain at least two pieces of nonconflicting evidence of where the service is consumed.

**DSPs shall comply with the following administrative requirements:**

- **Resident DSPs** shall register with the BIR following the policies and procedures under Section 236 of the Tax Code and other existing relevant laws, rules and regulations.
- **Nonresident DSPs** shall register with the BIR within the period prescribed under Section 236 of the Tax Code through the VAT on Digital Services (VDS) Portal and submit the prescribed information therein.

A Certificate of Registration with TIN and registration type will be issued to the nonresident DSP for all transactions involving digital services in the Philippines. Nonresident DSPs who fail to register for VAT will face business suspension and penalties.

**DSPs shall apply the following rules in filing their tax returns and payment and remittance of VAT:**

- **Resident VAT-registered DSP** must file VAT returns and pay VAT due per the Tax Code and relevant regulations.

**Note:** If a VAT-registered DSP is an e-marketplace with nonresident sellers, it must file a remittance return, withhold, and remit 12% VAT on their sales within 10 days after month-end, per the Tax Code.

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### ➤ Nonresident VAT-registered DSP

- **Business-to-business (B2B) transaction**

In B2B transactions, businesses and government entities must file a remittance return, withhold, and remit 12% VAT on digital service purchases within 10 days after month-end; the withheld VAT counts as input VAT or expense.

- **Business-to-consumer (B2C) transaction**

In B2C transactions, nonresident VAT-registered DSPs must file a VAT return and pay VAT on gross sales via the VDS Portal within 25 days after each quarter, per the Tax Code.

**Note:** Nonresident VAT-registered DSPs may pay VAT monthly but must still file quarterly returns and settle quarterly VAT as required by the Tax Code.

All tax payments must be in Philippine Peso, with VAT computed as 12% of the digital service value in PHP.

### ➤ Unregistered Nonresident DSPs

In B2B transactions, businesses, including government entities and GOCCs, must electronically file the remittance return and withhold 12% VAT on digital services purchased in the Philippines. The VAT must be remitted to the BIR within 10 days after the end of the month the withholding occurred.

### DSPs shall apply the following rules in claiming input tax under these Regulations:

#### ➤ Resident VAT-registered DSPs

- VAT on the purchase or importation of goods is creditable to the purchaser upon sale or to the importer upon VAT payment before goods are released by the Bureau of Customs.
- VAT on services, leases, or property use is creditable to the purchaser, lessee, or licensee upon payment of the compensation, rental, royalty, or fee.

#### ➤ Nonresident VAT-registered DSPs shall not be allowed to claim creditable input tax.

#### ➤ VAT-registered buyer Only VAT-registered buyers can claim input taxes, while non-VAT buyers include it as part of the cost. VAT-registered buyers can use the withholding VAT return as proof for their input VAT claim.

### DSPs shall apply the following rules in the issuance of sales or commercial invoices under these Regulations:

- **Resident VAT-registered DSPs** must issue sales invoices for every sale, barter, or exchange of digital services, as required by Section 113 of the Tax Code.
- **Nonresident VAT-registered DSPs** supplying digital services consumed in the Philippines must include specific information in the invoice such as date of the transaction; transaction reference number; identification of the buyer (including the TIN, if any); brief description of the transaction; and the total amount with the indication that such amount includes VAT.

Nonresident VAT-registered DSPs may issue electronic invoices without BIR registration, as long as they are in English and contain all required information. Authority to Print is not required.

**Note:** VAT-registered persons must keep regular accounting records, but this requirement does not apply to nonresident VAT-registered DSPs.

### Digital Services Exempt from VAT:

- Educational services, including online courses and trainings, are VAT-exempt if provided by DepEd, CHED, TESDA-accredited or government institutions.
- Online subscription services sold to DepEd, CHED, TESDA, and their recognized institutions are VAT-exempt.
- Digital services by banks, non-bank financial intermediaries, and BSP-registered VASPs are VAT-exempt.

**Note:** All parties in Philippine B2B and B2C transactions are subject to BIR audit. For nonresident DSPs, BIR may verify sales and notify discrepancies, which must be settled or face penalties.

**Source: Source: BIR-2025-RRs**

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