BDB Law

DU-BALADAD AND ASSOCIATES

ADVISORY

SERIES OF 2026

CLARIFICATION ON THE IMPLEMENTATION OF THE VAT ON DIGITAL SERVICES

BUREAU OF INTERNAL REVENUE
Revenue Memorandum Circulars No. 59-2026
June 2, 2026

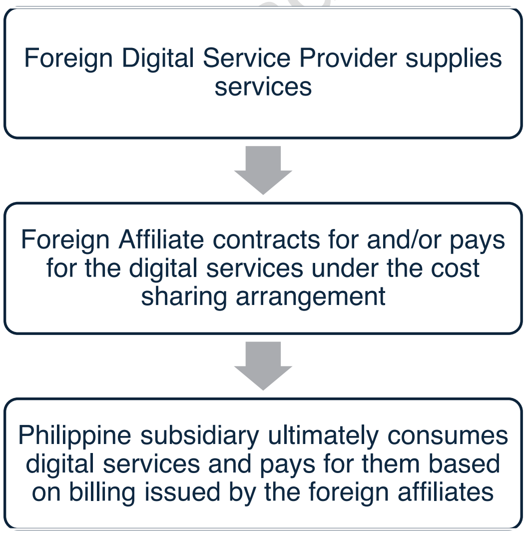
Clarification on the Implementation of the VAT on Digital Services

I. Compliance Requirements in relation to VAT-Exempt Digital Services

- A nonresident digital service provider (NRDSP) supplying digital services to Philippine consumer shall be required to register with the BIR and file VAT returns even if the services are VAT-exempt. VAT-exempt sales should be reported under the VAT-exempt portion of the VAT Returns.

II. Applicability of VAT on Digital Services under Cross-Border Cost Sharing Arrangements

- The diagram highlights the cross-border cost sharing arrangement involving the foreign digital service provider, foreign affiliates and Philippine subsidiary. The transaction is subject to VAT on digital services, even if the payment is made through a cost sharing agreement.



- Generally, the foreign supplier of digital services is considered NRDSP. However, since the foreign supplier has no direct transaction with the Philippine subsidiary, the foreign affiliate shall be deemed as the NRDSP and shall be required to register with BIR provided it has control on the key aspects of the supply of digital services to its Philippine subsidiary, as follows:

    - Sets, directly or indirectly, any of the terms and conditions under which the supply of digital services is made; or
    - Is involved, directly or indirectly, in the ordering of delivery of digital services.

- The Philippine subsidiary will be responsible for withholding and remitting 12% VAT on the cost of digital services charged to it.

III. Imposition of 12% VAT on Subscription and Commission Fees paid to NRDSP Online Booking Platforms

- If a Philippine VAT registered company offers an end-to-end short term rental solutions and subscribes to various NRDSP online booking platforms to facilitate reservation, the Philippine VAT registered company is required to withhold VAT and remit the 12% VAT on the subscription fees and commission fees/service fees that constitute the payment to the digital service supplied.

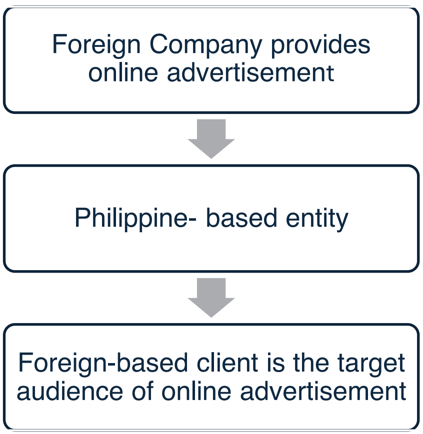
- The 12% VAT applies to subscription fees, commission fees, or service fees and not the entire booking amount collected since these fees were earned through the use of the internet for facilitating the bookings which are essentially automated.

IV. Imposition of 12% VAT on Cloud Subscription Contracts covering the period after the effectivity of VAT on Digital Services

- If a Philippine company paid a one-year cloud subscription covering both period before and after the effectivity of VAT on digital services and the invoice issued for the subscription did not include the 12% VAT, the company is still required to withhold and remit the VAT to the BIR. However, the 12% VAT applies only to the portion of the subscription period beginning June 2, 2025 when the VAT on digital services took effect.

V. Imposition of 12% VAT to Philippine-based Entities regardless of Target Audience

- The diagram shows an online advertisement arrangement in which the Foreign Company provides services to a Philippine-based entity, while the target audience of online advertisement is a foreign-based client.



- The 12% VAT applies to digital services supplied to a consumer located in the Philippines. Since the user, procurer and payor of the online advertisement is the Philippine-based entity, the same is subject to VAT regardless of the location of the audience. The Philippine-based entity is required to withhold and remit 12% VAT to BIR.

- The service fee earned by a Philippine-based entity from the foreign clients are subject to 0% VAT provided that the same are paid for in acceptable foreign currency and accounted for in accordance with the rules and regulations of the BSP.

VI. Imposition of 12% VAT on Real-Time Fund Transfer Service Fees

- A nonresident corporation engaged solely in facilitating real-time fund transfers is subject to 12% VAT imposed on the digital service if it collects services fees to a client located in the Philippines. The 12% VAT is computed on the service fee charged.

VII. Applicability of VAT on Digital Services to E-Marketplace Collecting VAT in advance

- In a scenario where the payment for digital services are made directly to the NRDSP rather than e-marketplace and such e-marketplace collects the VAT payments in advance on behalf of its seller, the e-marketplace is considered a digital service provider for VAT compliance purposes. In such case, the e-marketplace shall be liable to file BIR Form 2550-DS and remit the 12% VAT on the covered B2C transactions.

VIII. Tax Treaty Benefits

- Tax treaty benefits do not exempt digital service providers from VAT because the preferential tax rate or tax exemption covers only Income Tax.

Source:
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