



Republic of the Philippines

**Department of Finance
Department of Budget and Management**



Joint Circular No. 2008 - 1
June 16, 2008

- FOR :** Department of Finance (DOF) - Bureau of Internal Revenue (BIR) and Bureau of the Treasury (BTr), Department of Budget and Management (DBM), Local Government Units (LGUs), and All Others Concerned
- SUBJECT :** Guidelines and Procedure for the Release of the LGU Shares from the Value Added Tax (VAT) in lieu of Franchise Tax Collected from Racetrack Operations of the Manila Jockey Club, Inc. (MJCI) and the Philippine Racing Club, Inc. (PRCI)

1.0 BACKGROUND

- 1.1 Republic Act (RA) Nos. 8407 and 7953 granted to the Manila Jockey Club, Inc. (MJCI) and to the Philippine Racing Club, Inc. (PRCI) respectively, the franchise to operate racetracks, where:

MJCI and PRCI shall remit to the National Treasury a franchise tax equal to twenty five percent (25%) of their individual gross earnings from the horse races authorized to be held under their respective franchise which is equivalent to eight and one half percent (8 ½ %) of the total wager fund or gross receipts on the sale of betting tickets during the racing day, allotted as follows:

Particulars	% Shares
National Government	5/25
Province or city/municipality where racetrack is located	5/25
Philippine Charity Sweepstakes Office (PCSO) for PRCI/ Municipal hospital where the racetrack is located for MJCI	7/25
Philippine Anti - Tuberculosis Society (PTS)	6/25
White Cross (WC)	2/25

- 1.2 The enactment of RA No. 7716 (Expanded VAT Law) and RA No. 8241 (Amending RA No. 7716) replaced the rate of franchise tax to VAT to be computed based on gross receipts as defined under Section 108 (A) of RA No. 8424, the Tax Code of 1997. Accordingly, the allocation of the percentages shall be based on the VAT payable, as follows:

For PRCI:

National Government	5/25
Local Government	5/25
PCSO	7/25
PTS	6/25
WC	2/25



For MJCI:

National Government	5/25
Local Government	5/25
Municipal Hospital	7/25
PTS	6/25
WC	2/25

2.0 PURPOSE

- 2.1 To prescribe the guidelines and procedure for the release of the shares of local government units (LGUs) from the Value Added Tax (VAT) in lieu of franchise tax collected from race track operations of the MJCI and the PRCI, pursuant to R.A. Nos. 8407 and 7953, respectively.
- 2.2 To delineate the responsibilities of agencies concerned in the allocation and release of the shares of LGUs.

3.0 COVERAGE

This Joint Circular covers the shares of the LGU beneficiaries concerned from the VAT collected from racetrack operations of the MJCI and the PRCI, pursuant to RA Nos. 8407 and 7953, respectively.

4.0 DEFINITION OF TERMS

- 4.1 Franchise Tax - a tax on a special privilege or right conferred by the State through the legislature and which, therefore, does not belong to the citizens of the country generally as a matter of common right.
- 4.2 Gross Receipts - the total amount of money or its equivalent representing the contract price, compensation, service fee, rental or royalty, including the amount charged for materials supplied with the services and deposits and advance payments actually received during the taxable quarter for the services performed or to be performed for another person, excluding VAT.
- 4.3 Input Tax - the value added tax due from or paid by a VAT-registered person in the course of his trade or business on importation of goods or local purchase of goods or services, including lease or use of property, from a VAT-registered person.
- 4.4 LGU Beneficiary - refers to the province or city/municipality where the racetrack is located and where partly owned by the province and by the city/municipality, the share shall be proportionately allocated.

- 4.5 Municipal Hospital - refers to a government hospital located in, and operated and funded by the municipality.
- 4.6 Output Tax - means the value added tax due on the sale or lease of taxable goods or properties or services by any person liable to pay tax under Section 105 of the National Internal Revenue Code.
- 4.7 Value Added Tax - a tax on consumption levied on the sale, barter, exchange or lease of goods or properties and services in the Philippines and on importation of goods into the Philippines. The seller is the one statutorily liable for the payment of the tax but the amount of the tax may be shifted or passed on to the buyer, transferee or lessee of the goods, properties services at the time of the effectivity of RA No. 9337.

5.0 PROCEDURAL GUIDELINES

5.1 LGU's Share Computation

Gross Receipts (8.5% Club's Commission) * ¹	P	xxxxxxx
VAT Rate * ² 10% or 12% whichever is applicable		10% or 12%
VAT Output	P	xxxxxxx
Less: Input Tax		xxxxxxx
VAT Due and Payable	P	xxxxxxx
LGU's Percentage Share (5/25)		20%
LGU's Share	P	xxxxxxx

Note: *¹ LGU's share is computed from the 8.5% Club's Commission only

*² 10% VAT rate up to January 31, 2006
12% VAT rate effective February 1, 2006

5.2 Illustrative Computation

- A. LGU's share from VAT collections when VAT rate was 10% i.e., up to January 31, 2006 only:

Gross Receipts (8.5% Club's commission)	P	23,000,000
VAT rate		<u>10%</u>
VAT output	P	2,300,000
Less: Input Tax		<u>1,300,000</u>
VAT due and payable	P	1,000,000
LGU's percentage share (5/25)		<u>20%</u>
LGU's share	P	<u>200,000</u>

- B. LGU's Shares of 12% VAT collected for the taxable period effective February 1, 2006:

Gross Receipts (8.5% Club's commission)	P	23,000,000
VAT rate		<u>12%</u>
VAT output	P	2,760,000
Less: Input Tax		<u>1,760,000</u>
VAT due and payable	P	1,000,000
LGU's percentage share (5/25)		<u>20%</u>
LGU's share	P	<u>200,000</u>

6.0 RESPONSIBILITIES

6.1 Department of Finance (DOF) – Bureau of Internal Revenue (BIR)

For the Release of LGU Shares Chargeable to CY 2007 and the CY 2008 General Appropriations Act (GAA).

- 6.1.1 Prepares the 2007 annual summary of VAT payments for income derived by the MJCI and PRCI from horse racing indicating the date of payment and the Authorized Government Depository Bank/Authorized Agent Bank (AGDB/AAB) where payment was made;
- 6.1.2 Within thirty (30) days after the issuance of this circular, transmits to BTr for validation the 2007 annual summary of VAT payments referred to in 6.1.1;
- 6.1.3 Submits to DBM not later than April 30, 2008, the computations of the shares of LGU from VAT payments supported by the BIR-BTr Joint Certification as basis for the programming of funds and release of LGU shares in CY 2008 in accordance with the annual General Appropriations Act.

For the Release of LGU Shares for Remittances in CY 2008 Chargeable Against CY 2009 GAA and Thereafter

- 6.1.4 For CY 2008 and every year thereafter, prepares the monthly summary of VAT payments of MJCI and PRCI paid/filed with the BIR and forwards copy of the summary to the BTr within ten (10) days after the end of the month of filing of returns;
- 6.1.5 Submits to DBM the duly signed BTr-BIR Joint Certification of reconciled VAT payments received by BIR from MJCI and PRCI and deposited to BTr, together with the computation of the shares of LGUs thereon on or before April 30, 2009 and ensuing year thereafter.

For the Annual Budget Preparation (BP) for CY 2009 and for Every BP Year Thereafter

- 6.1.6 Prepares and submits to DBM not later than March 15, 2008 and of each ensuing year, the projected amount representing the VAT payments for the current year for inclusion in the National Expenditure Program (NEP) starting in CY 2009, and for every BP year thereafter.
- 6.2 Department of Finance - Bureau of the Treasury (BTr)
- 6.2.1 Receives from the BIR the summary of VAT payments of MJCI and PRCI, validates the same from the credit advices received from AGDBs and prepares the summary of deposits with the corresponding Journal Entry Voucher (JEV) issued;
 - 6.2.2 Consolidates the monthly summary of VAT payments, validates the same from BTr recorded VAT deposits, prepares the whole year summary with the corresponding JEV issued, and attach the same to the BTr-BIR Joint Certification;
 - 6.2.3 Prepares and signs the yearly BTr-BIR Joint Certification showing the reconciled VAT payments received by BIR from MJCI and PRCI and deposited to the BTr;
 - 6.2.4 Submits to BIR the duly signed BTr-BIR Joint Certification of VAT payments together with the summary of recorded VAT deposits of MJCI and PRCI with the corresponding JEV issued within fifteen (15) days from receipt of the summary of VAT payments from the BIR.
- 6.3 Department of Budget and Management (DBM)
- 6.3.1 Includes in the NEP the projections/estimates of VAT payments for income derived by MJCI and PRCI for the current year submitted by the BIR as per 6.1.6.
 - 6.3.2 Releases the shares directly to the LGUs, based on the BIR computation of LGU shares supported by the BIR-BTr Joint Certification on the actual collections made by the BIR and actually deposited to the BTr, as submitted to DBM not later than April 30 of each year, starting in CY 2008, subject to cash programming, budgeting, accounting and auditing rules and regulations.

7.0 SEPARABILITY CLAUSE

If any section or provision of this Joint Circular is held invalid, all other provisions not affected thereby shall remain valid. Share of other beneficiaries mentioned in RA 8407 and RA 7953 shall be made in a separate issuance.

8.0 GOVERNING CLAUSE

Cases not covered by the provisions of this Joint Circular shall be referred to the DBM Central Office or through the Regional Office concerned, which shall resolve the matter in coordination with MJCI, PRCI, BIR and BTr.

9.0 EFFECTIVITY CLAUSE

This Joint Circular shall take effect immediately.



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