REPUBLIKA NG PILIPINAS
KAGAWARAN NG PANANALAPI
KAWANIHAN NG RENTAS INTERNAS

November 25, 2004

REVENUE MEMORANDUM CIRCULAR NO. 73-2004

SUBJECT : Guidelines and Policies Applicable to the Business Tax Applicable to the Pawnshops as a result of the Issuance of Revenue Regulations No. 10-2004, Including Pawnshops under the Classification of Other Non-Bank Financial Intermediaries in accordance with the power granted the Commissioner of Internal Revenue under Section 4 of Republic Act No. 9238.

TO : All Pawnshops, Internal Revenue Officers and Others Concerned.

I. Background

Section 4 of Republic Act No. 9238, otherwise known as "An Act Amending Certain Sections of the National Internal Revenue Code of 1997, As Amended, By Excluding Several Services From the Coverage of the Value-Added Tax and Re-Imposing the Gross Receipts Tax on Banks and Non-Bank Financial Intermediaries performing Quasi-banking Functions and other Non-Bank Financial Intermediaries Beginning January 1, 2004", granted the Commissioner of Internal Revenue to impose gross receipt tax on persons performing similar financing activities as other Non-Bank Financial Intermediary. By virtue of said power granted therein, and of the fact that pawnshops is defined under Presidential Decree No. 114 as persons or entity engaged in the business of lending money and are directly under the supervision of the Bangko Sentral ng Pilipinas, Revenue Regulations No. 10-2004 was issued by the Secretary of Finance upon the recommendation of the Commissioner of Internal Revenue, classifying pawnshop, for purpose of gross receipt tax, as a non-bank financial intermediary effective January 1, 2005. This Revenue Memorandum Circular is being issued to provide guidelines and policies on assessing and collection the Value Added tax or percentage tax liabilities, as the case maybe, of pawnshops prior to January 1, 2005, and matters relating to the change of registration of pawnshop effective January 1, 2005.

II. Tax Liabilities of Pawnshops for Tax Years 1996 to 2002.

Pawnshops shall be allowed to settle its value added tax for tax years 1996 to 2002 in accordance with the provisions of and under the conditions contained in Revenue Memorandum Circular (RMC) No. 37-2004 up to December 15, 2004. Thereafter, pawnshops shall not longer be allowed to settle their VAT liability for tax years 1996 to 2002 under the terms and condition set forth in said RMC. Thereafter, all revenue officers are instructed to apply the full force of the law on such pawnshops who did not avail of the compromise provided therein, and to collect the full amount of tax due and the increments thereto.

III. Tax Due from Pawnshops During the Period January 1, 2003 to December 31, 2004.

All sales of services and goods of pawnshop for tax years 2003 to 2004 are subject to value added tax. Provided, however, if their gross annual sales and/or receipts do not exceed the amount of Five Hundred Fifty Thousand pesos (P550,000.00), then they shall be subject to a percentage tax of three percent (3%). All revenue officers are hereby instructed to ensure that the proper taxes were paid in a timely manner by pawnshops. Otherwise, they should collect the full amount of tax due and the increments thereto.

IV. Tax Due from Pawnshops from January 1, 2005 Onward.

Commencing January 1, 2005, all sales of services and goods of pawnshops shall be subject to gross receipt tax as provided for in Section 122 of the National Internal Revenue Code of 1997, as amended by Republic Act No. 9238.

V. Transitory Provision.

1. **Conversion from VAT-Registered Taxpayer to that of Non-VAT Taxpayer.**
   Affected VAT-registered pawnshops are required to update their corresponding registration records with the concerned BIR Office by filing the necessary registration update forms (BIR Form No. 1905) converting their status from VAT-registered taxpayer to that of Non-VAT taxpayer on or before January 30, 2005.

2. **Unused VAT Receipts. –** Taxpayers who change status from VAT to Non-VAT as a result of Revenue Regulations 10-2004 shall be required to submit, on or before January 30, 2005, to the BIR office having jurisdiction over the taxpayers' an inventory of unused VAT invoice/receipts as of December 31, 2004, indicating the number of booklets and the corresponding serial numbers of said unused VAT invoices/receipts. It is stressed, moreover, that starting January 1, 2005, pawnshops must be issuing non-VAT invoices/receipts. For this purpose, pawnshops shall be allowed, up to March 31, 2005, to use unused VAT receipts included in the inventory of unused VAT receipts as of December 31, 2004, required to be submitted

herein, provided, they are clearly stamped with the word "Non-VAT receipt", and countersigned by a duly authorized officer of the pawnshop-taxpayer.

Cost of unused VAT invoices/receipts, as listed in the inventory submitted, shall be allowed as an income tax deduction for taxable year 2004.

3. **Taxability of Collections Received on or Before December 31, 2004 on Account of Services to be Rendered Thereafter as well as Services Rendered on or before December 31, 2004, the Consideration for which were Received Thereafter.** - Collections forming part of gross receipt on or before December 31, 2004 are supposed to have been subjected to VAT, the last payment date of which is January 20/25, 2005, which collection shall no longer be subject to the payment of Gross Receipt Tax (GRT). Advance payments received on or before December 31, 2004 where the services thereof are to be rendered after such date shall not be considered as income earned beginning January 1, 2005 subject to GRT considering that the same has already been subjected to VAT in the previous year. On the other hand, services rendered prior to December 31, 2004, the considerations of which were received thereafter and therefore not reflected in any VAT return filed shall be subject to GRT.

4. **Excess Input Tax Credits** – Excess input tax credits on hand of taxpayers whose status has changed from VAT to Non-VAT taxpayers shall be governed by Section 112 of the Tax Code.

All internal revenue officers and other concerned are enjoined to give this Circular as wide a publicity as possible.

(Original Signed)
GUILLERMO L. PARAYNO, JR.
Commissioner of Internal Revenue