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Online business transactions

IT is not unusual these days for businesses, intermediaries and consumers to transact business online. Almost all business activities can be conducted over the Internet, such as online shopping or retailing, online intermediary service or when another party offers intermediation between two trading parties, online advertisement or classified ads, and online auction.

Probably realizing that the volume of transactions done online is increasing, with tax leaks possibly unnoticed, the Bureau of Internal Revenue (BIR) issued Revenue Memorandum Circular (RMC) 55-2013 to reiterate and clarify the tax duties of parties involved in online business transactions.

An entity that is engaged in online business transactions is required to register the business with the BIR; secure the required Authority to Print; issue invoices and receipts; withhold the required taxes, as well as file the applicable tax returns; and keep books of accounts and other business or accounting records within the time prescribed by law.

Normally, online business transactions involve the online merchant or retailer and the buyer or customer. However, in some transactions, another party, called payment gateways, which are banks or other third-party settlement organizations, may be involved. In certain transactions, it may also involve freight forwarders and online web-site administrators. Further, depending on the online transaction, it may involve intermediary services, an advertising entity and auction web stores.

Under the said RMC, an online merchant or retailer is obliged to issue an invoice or official receipt (OR); an acknowledgment receipt to the payment gateways; and pay commission, less the corresponding expanded withholding tax (EWT). On the other hand, a buyer or customer is required to receive the payment confirmation under the name of the merchant or deposit slip and invoice or OR upon delivery of the goods or performance of service. Moreover, payment gateways are obliged to issue payment confirmation in the name of the merchant or seller; remit to the merchant or seller the price, less the EWT; and remit the EWT to the BIR and receive his or her commission. Finally, freight forwarders and online web administrators are obliged to issue invoices or ORs.

In the event that there are online intermediaries, they are obliged to issue ORs or invoices and ensure that the merchant delivers the goods to the buyer with invoice. If they collect payments, they are further required to pay the commission of payment gateways, net of EWT, and remit the payment, plus the tax withheld. The merchant shall remit the tax. If the transaction involves an advertising entity, it shall issue the invoice or OR for the full amount of the advertising fee. Further, if the transaction is an online auction that necessarily involves an auction web store, this store shall be required to issue an invoice or OR, an acknowledgment receipt and pay the commission, net of withholding tax.

There is no doubt that online business transactions have brought convenience to all parties involved. But no matter how convenient it is, the tax burden still remains. Just like the traditional method of doing business, the tax obligation remains with the party responsible. Thus, the tax duties of each party in an online business transaction must be observed.

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