

**[BIR REVENUE MEMORANDUM CIRCULAR NO. 97-
2010, December 21, 2010]**

**VAT EXEMPTION OF SERVICES BY AGRICULTURAL CONTRACT
GROWERS**

This Circular is hereby issued to clarify the VAT exemption of services by agricultural contract growers under Section 109 (F) of the Tax Code of 1997, as amended.

Pursuant to Section 4.109-1(B) (1) (f) of Revenue Regulations No. 16-05, "Agricultural contract growers" refers to those persons producing for other poultry, livestock or other agricultural and marine food products in their original state. Its services involve growing of poultry, livestock or other agricultural and marine food products into marketable poultry, livestock or other agricultural and marine food products. There are agricultural contract growers which offer toll processing/toll dressing/toll manufacturing as a packaged service to its contract growing. Toll processing/toll dressing/toll manufacturing involves procedures such as weighing, killing, dressing, scalding, cut-ups and packaging. In this case, the contract growing and toll processing/toll dressing/toll manufacturing services by agricultural contract growers are exempt from VAT.

Section 108 of the Tax Code of 1997, as amended, provides the following:

"SEC. 108. Value-added Tax on Sale of Services and Use or Lease of Properties –

"(A) Rate and Base of Tax - There shall be levied, assessed and collected, a value-added tax equivalent to ten percent (10%) (now 12%) of gross receipts derived from the sale or exchange of services, including the use or lease of properties .xxx

The phrase 'sale or exchange of services' means *the performance of all kinds of services in the Philippines for others for a fee, remuneration or consideration, including those performed or rendered by ... persons engaged in milling, processing, manufacturing or repacking goods for others;...and similar services regardless of whether or not the performance thereof calls for the exercise or use of the physical or mental faculties ...*" (emphasis and italics supplied)

However, the Bureau has issued rulings^[1] wherein it previously considered that the toll processing (or dressing) of chicken received from other contract growers, and which the toll processors/toll dressing contractor themselves do not produce or