

**[BIR MEMORANDUM CIRCULAR NO. 56-2002,
December 13, 2002]**

**TAXABILITY OF HEALTH MAINTENANCE ORGANIZATIONS
(HMOS) FOR VAT PURPOSES**

For the information and guidance of all concerned, quoted hereunder are pertinent portions of C.T.A. Case No. 616, entitled, "*Philippine Health Care Providers, Inc., petitioner, vs. The Commissioner of Internal Revenue, respondent*", dated April 05, 2002, which reiterated the view of the VAT Review Committee under VAT Ruling No. 18-98, dated June 23, 1998, that Health Maintenance Organizations (HMOs) are considered service contractors and, therefore, subject to VAT at the rate of ten percent (10%), to wit:

"xxx xxx xxx"

"As can be gleaned from the records of the case, petitioner was actually organized to establish, maintain, conduct and operate a prepaid group practice health care delivery system or a health maintenance organization to take care of diseased and disabled persons who are enrolled in the health care plan . . . (Exhibit 1-a). Under the prepaid group practice health care delivery system adopted by petitioner, individuals enrolled in its health care program are entitled to medical services to be conducted by duly licensed physicians, specialists and other professional technical staff in a hospital or clinic owned, operated and accredited by petitioner. To be entitled to receive such medical services, an individual must enroll in petitioner's health care program and pay an annual fee. Enrollment thereon is on a year-to-year basis and enrollees are issued identification cards (Exhibit P). Thus, it can be inferred from the foregoing that petitioner actually provides and arranges for the provision of pre-need health care services to its members for a fixed prepaid fee for a specified period of time. Petitioner contracts the services of physicians, medical and dental practitioners, clinics and hospitals to perform such services to its enrolled members. Petitioner also enters into contract with clinics, hospitals, medical professionals and then negotiates with them regarding payment schemes, financing and other procedures in the delivery of health services. In choosing which to accredit, they actually set the parameters, rules and guidelines for the accreditation of the participating clinics and hospitals.

"Thus, it is evident that petitioner is not actually rendering medical service but merely acting as a conduit between the members and their accredited recognized hospitals and clinics. Apparently, they are subject to VAT under Section 102 [now Section 108] of the Tax Code as service contractors, thus: