REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE
Quezon City

December 15, 2005

REVENUE MEMORANDUM ORDER NO. 7-2006

SUBJECT : Prescribing Guidelines and Procedures in the Processing of Applications for Zero-Rating of Effectively Zero-Rated Transactions for Value-Added Tax Purposes

TO : All Internal Revenue Officers and Others Concerned

I. PURPOSE

This Memorandum Order is being issued to provide guidelines and procedures to:

1. Facilitate the processing of applications for VAT zero-rating pursuant to the provisions of Sections 106(A)(2) and 108(B) of the National Internal Revenue Code of 1997, as last amended by Republic Act No. 9337.

2. Prescribe standard report forms to be used by all concerned offices in the implementation of this Order.

II. GUIDELINES AND POLICIES

1. All Applications for VAT Zero-Rate (Annex "A") except those of Large Taxpayers shall be processed and approved by the Audit Information, Tax Exemption and Incentives Division (AITEID) under the Assessment Service.

   The Large Taxpayers Audit and Investigation Divisions I and II (LTAID I and II) and Large Taxpayers District Office (LTDO) shall process applications for VAT zero-rating of effectively zero-rated transactions of Large Taxpayers under their jurisdiction. Guidelines and procedures in the processing of the same shall be covered by a separate revenue issuance.

   In no case shall Revenue District Offices (RDOs) be allowed to process and approve/disapprove applications for VAT Zero-Rate.

2. Taxpayers shall file their Applications for VAT Zero-Rate directly with the AITEID or with the LTAID I and II/LTDO, as the case may be.

3. The AITEID shall **only** accept Applications for VAT Zero-Rate as prescribed under Annex "A" hereof, with **complete supporting documents**.

   The receiving office shall check on the completeness of the documentary requirements to be filed together with the Application for VAT Zero-Rate before stamping the word "RECEIVED" on the application. In case of partial compliance, the applicant shall be informed of the missing or additional requirements.

4. The Application for VAT Zero-Rate shall be accomplished and filed by the seller (not by the purchaser of goods, properties and/or services) to cover transactions qualified for effective zero-rating. The Application for VAT Zero-Rate shall be filed only by VAT-registered sellers to cover sale of goods, properties or services to qualified buyers certified or endorsed, whenever necessary, by the concerned government regulatory agency.

5. The Application for VAT Zero-Rate shall be processed and approved/disapproved within fifteen (15) working days from receipt of the application with complete supporting documents. If there are legal issues involved in an application, the same shall be referred to the Law Division/VAT Review Committee for legal interpretation of vague provisions of the law and the taxpayer shall be accordingly informed of the status of its application. Processing shall be made only upon receipt of the legal opinion from the said Office. The VAT Review Committee shall transmit the necessary legal opinion to the AITEID within thirty (30) days from receipt of referral. For disapproved applications, the reason/s for the denial shall be clearly stated in the application.

6. For applications requiring favorable endorsement from other regulatory agencies, processing thereof shall be made only upon official receipt by AITEID of the annual master file and/or the separate endorsement letter, as the case may be, from the said agencies.

7. Approval for VAT zero-rating shall be required only for transactions which fall under the provisions of Sections 106(A)(2)(a)(3)(5) and (6); 106(A)(2)(c); and 108(B)(3),(4) and (5) of the National Internal Revenue Code (NIRC) of 1997, as last amended by Republic Act No. 9337. Accordingly, transactions falling under the provisions of Sections 106 (A)(2)(a)(1),(2), and (4); 106(A)(2)(b); and 108(B)(1),(2),(6) and (7) of the NIRC which are automatically considered as zero-rated shall not be covered by this Order.

8. The approval of Applications for VAT Zero-Rate shall be given prospective effect. All approved Applications for VAT Zero-Rate shall take effect on the

date the application was received by the AITEID and in no case shall it be given retroactive effect.

9. The approved Application for VAT Zero-Rate shall be valid until December 31 of the year of application and renewable every year thereafter. The application for renewal shall be filed on or before the last working day of December of each year. For applications filed on or after the first working day of January, the effectivity date thereof shall be reckoned on the date of its actual receipt. However, for applications for renewal filed by suppliers of qualified exporters who were not included in the first masterlist submitted by concerned regulatory agencies, the effectivity date of approval shall be reckoned on the date of official endorsement by the said regulatory agency or the date of receipt of application, whichever comes later.

10. The approved Application for VAT Zero-Rate shall be revoked in the event that the taxpayer-applicant was found to have committed misrepresentations on the application or the exporter was found to have been erroneously endorsed for VAT zero-rating. The revocation shall be retroactive to the date when the application was approved.

11. The AITEID shall maintain a record of all applications received and approved/disapproved. Every application received shall be assigned an Application Number (AN) while different set of control numbers shall be assigned to all approved/disapproved applications.

12. The LTAID I and II/LTDO shall submit to AITEID quarterly/annual list of Approved Applications for VAT Zero-Rate, within 30 days following the close of the quarter/year for consolidation by the latter for purposes of dissemination to all concerned internal and external offices.

13. The AITEID shall receive the official annual masterlist and/or separate endorsement letters from concerned government regulatory agencies containing information on registered exporters entitled to VAT zero-rated purchases. The AITIED shall furnish LTS with copy of the masterlist/endorsement as reference in the processing of the application under their jurisdiction.

III. PROCEDURES

A. *Receiving Personnel*

1. Prior to receiving the Applications for VAT Zero-Rate

   a. Review the details appearing in the application and check whether all pertinent information are properly filled up and the application is accomplished by the seller of goods, properties or services; and

b. Ascertain the completeness of the pertinent documents required to be attached to the application as specified in the checklist (Annex "B", "B1" and "B2"). In case of partial compliance, the applicant shall be informed of the missing or additional requirements.

2. Receive the Applications for VAT Zero-Rate with complete supporting documents in four (4) copies to be distributed as follows:

Original	- Taxpayer (after approval/disapproval)
Duplicate	- AITEID (file)
Triplicate	- AITEID (with the docket)
Quadruplet	- Taxpayer (upon filing)

3. Indicate the Application Number (AN) on the appropriate space provided therefor immediately upon receipt of the application. The assignment of a control number shall be made sequentially following the order of receipt of the application. The serial number shall likewise reflect the year of filing of the application.

   Example:

   Office - Year - AN

   AITEID - 2006 - 0001

   The above serial number indicates that the application was the first application received by the AITEID in the year 2006.

4. Record the receipt of the application in the Logbook of Received Applications for Zero-Rate by indicating the following information:

   a. Date of receipt;
   b. Application number;
   c. Name and TIN of Applicant;
   d. Name and TIN of Customer;
   e. Transaction applied for; and
   f. Remarks

5. Forward the application form together with all the attachments to the Revenue Officer for processing of the Applications for VAT Zero-Rate.

B. *Revenue Officer*

1. Receive the Applications for VAT Zero-Rate together with all the supporting documents from the Receiving Personnel.

2. Review and evaluate the supporting documents attached to the application form.
3. Ascertain the veracity of all the information contained in the application and the authenticity of all submitted supporting documents.

    a. Verify using the ITS facilities whether the applicant is a VAT-registered supplier as of the date of application.

    b. Verify the correctness of the name, address and TIN of the taxpayer against its ITS records.

4. Verify if the required favorable endorsement from concerned government regulatory agencies has been secured prior to the filing of the application, whenever applicable.

    a. Verify if the purchaser is included in the current annual masterlist of enterprises endorsed for VAT zero-rating;

    b. In case the customer is not yet included in the annual masterlist, verify if an individual endorsement letter from the concerned government regulatory agency accompanies the application.

    c. Check the legitimacy of the copies of endorsement submitted by the taxpayer by comparing the same with the copies of endorsements officially transmitted to the BIR by the government agency concerned; and

    d. Ascertain the legal and/or factual basis invoked by the applicant in securing approval of Application for VAT Zero-Rate. Determine whether the transaction applied for actually qualifies for zero-rating in accordance with the provisions of the NIRC and its implementing rules and regulations, special laws or international agreements.

5. Fill up all the appropriate spaces in the application form indicating thereat the results of the evaluation of the Application for VAT Zero-Rate as follows:

Item No. 8	Indicate the legal basis for VAT zero-rating (i.e. the specific law or international agreement that grants the benefit of VAT zero-rating)
Item No. 10	Mark the appropriate box provided to indicate which government regulatory agency made the favorable endorsement of the purchaser.
Item No. 11	State the result of evaluation and recommend for approval or disapproval of the application. Should there be partial approval, the disapproved portion must

be clearly stated in the form.

Item No. 12 — Indicate the specific instructions/remarks for strict compliance of the taxpayer. Any violation of the terms and conditions stated on this space of the application shall constitute a valid ground for revocation of the approved application even before its expiry date.

The following information shall be indicated on this portion of the accomplished application:

***Effectivity** - "Unless sooner revoked, VAT-Zero Rate is valid from (date) to (date)."

***Invoicing** - "Applicant/Seller must always issue invoice/receipt where the words ZERO-RATED SALE are conspicuously imprinted or marked thereon."

***Exclusivity** - "For exclusive delivery of the specific goods/services to the specific buyer"

6. Affix initial on the duplicate and triplicate copies of the accomplished application form;

7. Forward the accomplished application form together with the supporting documents to the Section Chief for review.

C. *Section Chief*

1. Receive the duly accomplished Applications for VAT Zero-Rate together with all the attachments from the Revenue Officer.

2. Review the evaluation made by the Revenue Officer on the application containing his initial.

3. Affix initial in the application form to manifest approval.

4. Forward the entire processed application and all supporting documents to the Division Chief for final review and approval.

5. Review the quarterly/annual List of Approved Applications for VAT Zero-Rate (Annex "C") prepared by the Releasing Personnel before transmittal to the Division Chief.

6. Receive from LTAID I and II/LTDO the quarterly/annual List of Approved Applications for VAT Zero Rate.

7. Prepare a consolidated List of Approved Applications for VAT Zero-Rate (Annex "D") for transmittal to the Division Chief for review.

D. *Division Chief*

1. Receive the duly validated Applications for VAT Zero-Rate together with the attachments from the Section Chief.

2. Review the basis used in processing the application to ascertain if the same conforms to all pertinent laws, rules, regulations and issuances. Refer applications to the Law Division/VAT Review Committee of the National Office if the same requires legal interpretation of vague provisions of the law.

3. Approve/disapprove the Applications for VAT Zero-Rate.

4. Forward the approved/disapproved applications together with all the supporting documents to the Releasing Personnel for release to the taxpayer-applicant.

5. Receive from the Section Chief the quarterly/annual list or consolidated list, as the case may be, of Approved Applications for VAT Zero-Rate.

6. Review the above lists before transmittal to the (AITEID) Assessment Service, as the case may be.

E. *Releasing Personnel*

1. Receive the approved/disapproved Application for VAT Zero-Rate from the Division Chief. Indicate immediately the Control Number in Item No. 9 of the approved application. The assignment of the Control Number shall be made sequentially following the order of receipt of the approved applications for VAT zero-rating from the Division Chief. The said number shall contain the Control Number and the year of approval.

   Example:

   Office - Year - CN

   AITEID - 2006 - 0001

The above serial number indicates that the application is the first application approved by AITEID for the year 2006. The Control Number will not necessarily match the Application Number referred to in Procedure A.3 above.

2. Post in the "Remarks" column of the Logbook of Received Applications the action taken (i.e., whether the application is approved or disapproved). Unfilled "Remarks" column in the logbook will indicate the pendency of the application.

3. Record all pertinent information contained in the approved/disapproved application in the logbook of Approved/Disapproved Applications for VAT Zero-Rate by indicating the following information:

    a. Date of receipt
    b. Control Number (for approved applications only)
    c. Application Number
    d. Name and address of seller/applicant
    e. TIN of seller/applicant
    f. Name and address of purchaser
    g. TIN of purchaser
    h. Complete description of approved zero-rated sale of goods, properties or services (for approved applications only)
    i. Effectivity date (for approved applications only)

4. Prepare quarterly/annual List of Approved Applications for VAT Zero-Rate indicating therein the following information:

    a. Control Number
    b. Name, TIN of seller and RDO code
    c. Name, TIN of buyer and RDO code
    d. Complete description of approved zero-rated sale of goods, properties or services
    e. Effectivity date

5. Forward the above list to the Section Chief for review.

B. <u>At the Law Division/VAT Review Committee</u>

1. Receive the Application for VAT Zero-Rate referred by AITEID for resolution of legal issues.

2. Evaluate the merits of the case based on pertinent laws, rules, regulations and/or issuances.

3. Prepare and transmit necessary legal opinion to the AITEID within thirty (30) days from receipt of referral.

C. <u>At the Assessment Service</u>

1. Receive from the AITEID the consolidated quarterly/annual List of Approved Applications for VAT Zero-Rate.

2. Transmit to the concerned internal and external offices the quarterly/annual List of Approved Applications for VAT Zero-Rate.

IV. REPEALING CLAUSE

All other existing issuances or portions thereof inconsistent with this Order are hereby repealed or modified accordingly.

V. EFFECTIVITY

This Order shall take effect immediately.

(Original Signed)
JOSE MARIO C. BUÑAG
Commissioner of Internal Revenue