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

July 20, 2007

REVENUE MEMORANDUM ORDER NO. 16-2007

SUBJECT : Prescribing Additional Procedures in the Audit of Input Taxes Claimed in the VAT Returns By Revenue Officers and Amending "Annex B" of Revenue Memorandum Order (RMO) No. 53-98 With Respect to the Checklist of Documents to be Submitted by a Taxpayer Upon Audit of His/Its VAT Liabilities As Well As the Mandatory Reporting Requirements to be Prepared by the Assigned Revenue Officer/s Relative Thereto, All of Which Shall Form an Integral Part of the Tax Docket.

TO : All Internal Revenue Officers and Others Concerned.

I. Background

It has been observed that there has been an abuse in the claim for input tax credits on purchases declared by the taxpayers. More often than not, VAT returns filed reflect very minimal VAT payments or no payment at all due to the seemingly excessive input taxes being claimed against the output tax declared therein.

While there may be sales invoices/ official receipts to evidence these purchases, there is a need to go a step further into verifying whether these purchases are really true and represent legitimate transactions with entities/persons duly registered with the Bureau of Internal Revenue (BIR) and that these transactions are properly and correctly recorded in the books of accounts of all parties and appropriately reflected in the tax returns filed by these transacting/contracting parties.

II. Objective

This Order is issued to:

a. Amend "Annex B" of RMO No. 53-98 in order :

(1) To provide additional documents to be required from a taxpayer during the audit of his/its VAT liabilities specifically on his/its claim for

input tax credits in his/its VAT returns for the period covered by the audit; and

(2) To prescribe additional reporting requirements with respect to the verification/audit of input taxes claimed by the taxpayer, to be prepared, submitted, and attached to the tax audit docket by the revenue officer/s assigned in the case.

b. To provide for other policies and procedures by which to verify the validity and correctness of input taxes claimed by the taxpayer in his/its VAT returns.

III. Policies and Procedures

a. "Annex B" of RMO No. 53-98 is hereby amended to provide for additional items in the list of requirements from taxpayers and reporting requirements to be prepared and/or submitted by the revenue officer/s in the audit of VAT liabilities and is hereto attached as an integral part of this Order;

b. It shall be the duty of the revenue officer/s assigned to employ the necessary audit tools to verify the authenticity and validity of the input taxes claimed by the taxpayer in his/its VAT returns. It is not only enough that the taxpayer is able to present, upon audit, the corresponding sales invoices/official receipts to evidence these purchases declared, but there is a further need to ascertain the legitimacy and factual existence of "big-ticket" items of purchases and validate whether these have been appropriately recorded in the books of accounts and reflected in the filed tax returns.

For this purpose, "big-ticket" items of purchases shall refer to purchases made from suppliers whose individual gross annual cumulative sales to the particular taxpayer-purchaser accounts to more than five percent (5%) of said taxpayer-purchaser's annual gross purchases covering the period under audit;

c. There must be full utilization of data or information available in the Integrated Tax System (ITS) database and other files of the BIR to ascertain that the purchases made by the taxpayer for which input taxes have been claimed were likewise appropriately reported as sales by his/its respective suppliers in their corresponding VAT Returns/Income Tax Returns and in the summary lists of sales submitted to the BIR;

d. For this purpose, all requests for access to preprocessed RELIEF data shall be covered by a request form duly approved by the Regional Director (RD)/ACIR-Large Taxpayers Service (LTS)/ ACIR-Enforcement Service, as the case may be. Access to preprocessed RELIEF data shall be limited to taxpayers for whom LAs/Audit Notices, TVNs and/or Mission Orders have been issued;

Such requests must be in writing addressed to the ACIR, Assessment Service, Attention : The Chief, Audit Information Tax Exemption and Incentives Division (AITEID), asking said Office to furnish the revenue officers assigned with the preprocessed RELIEF data pertinent to the details of the customers records of suppliers identified as those whose sales are considered as "big-ticket" purchases of the taxpayer so that declarations of both may be compared;

e. If upon matching, it is ascertained that the declaration of purchases by the taxpayer is true and valid (as the same have been substantiated by corresponding proofs of payment and other evidences) and that it is the supplier who under-declared his/its sales to the taxpayer-purchaser in his tax returns or in his Schedule of Monthly Sales and Output Tax submitted to the BIR on a quarterly interval, then such information must be endorsed to the RDO/LT Office where the particular supplier is registered, copy furnished ACIR, Assessment Service, so that this information may be included in the audit findings for the supplier in case he/it is currently being investigated by said RDO/LT Office or may serve as basis for said RDO/LT Office to request the issuance of LA to investigate this supplier in case he/it is not yet audited for the subject period. In appropriate cases, this type of underdeclaration of sales may be the subject of tax fraud investigation.

In cases where it is the taxpayer-purchaser who over-declared or over-claimed his/its purchases, then for the excessive input taxes claimed, the same must be disallowed and deficiency VAT must be assessed thereon;

f. If upon verification with AITEID it is ascertained that information of the respective sales of such supplier/s to the taxpayer-purchaser is unavailing because the quarterly sales of the supplier/s do not come up with the quarterly thresholds set for the mandatory submission of the quarterly summary list of sales, then the following procedures shall be employed:

f.1 At the very least, the revenue officers assigned must access the ITS Registration System to determine whether the suppliers are duly registered as VAT taxpayers. If it is found out that the suppliers are not registered, or registered as Non-VAT taxpayers only but issuing VAT invoices, then pertinent information relative to the sales made to the taxpayer-purchaser and the fact that the taxpayer is not registered, or registered as Non-VAT taxpayer only must be endorsed to the Special Investigation Division of the Regional Office or the National Investigation Division of the National Office for tax fraud investigation and other appropriate action.

Disallowance of the input taxes attributable to the sales made by these questionable suppliers shall only be done if aside from the sales invoice no

other evidence can be presented by the taxpayer-purchaser to substantiate the authenticity of the purchases made.

f.2 Access through letters signed by the Regional Director/ACIR-LTS/ACIR Enforcement Service or their authorized representatives authorizing the revenue officers to obtain photocopies of the VAT returns of the suppliers from the Document Processing Section District Office/LT Office where the supplier is registered or from the Integrated Tax System-Returns Processing System (ITS-RPS), with or without the assistance of the Assessment Service. The VAT returns of these suppliers with "big-ticket" purchases by the taxpayer-purchaser for the period covered by the verification must be made an integral part of the tax docket of the revenue officers.

g. Any record obtained pertinent to the identified supplier of the taxpayer should be considered strictly confidential and shall be used exclusively for internal revenue tax purposes. All employees who in any way made access to the system and manual files should be informed of the legal provisions governing unlawful disclosure of any taxpayer's information. Any divulgence, unless authorized by law, shall be a ground for the imposition of the administrative sanctions and filing of appropriate charges against the erring official and employee; and

h. In all field audit case reports, the examiner should mention the type of physical assets, location of the assets and bank accounts that the taxpayer is maintaining at the time of conclusion of the audit.

IV. Repealing Clause

All existing issuances or parts thereof which are inconsistent herewith are hereby repealed.

V. Effectivity

This Order takes effect immediately.

(Original Signed)
LILIAN B. HEFTI
OIC- Commissioner of Internal Revenue