REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

Quezon City

July 31, 2012

REVENUE MEMORANDUM ORDER NO. 19-2012

SUBJECT : Value Added Tax Audit Program for Large Taxpayers Service

TO : All Officers and Employees of the Large Taxpayers Service and Others Concerned

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I. OBJECTIVES

1. To enhance taxpayers' voluntary compliance through quality audit of Value-Added Tax (VAT) returns;

2. To audit a broad range of taxpayer groups by size, by industry segment and by compliance issue; and

3. To prescribe criteria in the audit of VAT returns of taxpayers under the jurisdiction of the Large Taxpayers Service (LTS).

II. COVERAGE

This Order shall cover the audit/investigation of VAT returns of LTS taxpayers classified under the following selection criteria:

A. High Risk Taxpayers

1. Factors/Risk Characteristics resulting to under-reporting of VAT liabilities and non-remittance of VAT collection.

   1.1. Taxpayers with significant increase in exempt/zero-rated sales/revenues (Selection Code: EZE);

   1.2. Taxpayers whose VAT returns reflect substantial input taxes such as when the total input taxes claimed exceed 75% of the total output tax (Selection Code: EIL);

   1.3. Taxpayers with history of declaring excess input tax carry over (Selection Code: EIH);

1.4. Taxpayers filing VAT exempt tax returns due to availment of tax incentives or tax exemptions (Selection Code: ETI);

1.5. Taxpayers with history of filing claim for refund and/or request for issuance of Tax Credit Certificate (TCC) (Selection Code: CTC);

1.6. Taxpayers with substantial sales but reporting net loss (Selection code: SNL) ;

1.7. Taxpayers with drastic decrease in reported sales/VAT payments or with marked deviation from industry trends (Selection Code: DIT); and

1.8. Taxpayers identified as High Risk based on the result of the LTS Compliance Risk Matrix analysis (Selection Code: CRM).

2. Compliance Risk Characteristics due to non-compliance to administrative requirements.

2.1. Taxpayers with acquisition of more than one (1) million in capital assets and failed to amortize the input tax as required (Selection Code: ACA);

2.2. Taxpayers who are non-compliant in the submission of SLP and SLS, MAP, SAWT and other mandatory requirements (Selection Code: NCT);

2.3. Taxpayers who are non-compliant with RMO No. 12-2012 – the Electronic Sales Reporting (Selection Code: ESR); and

2.4. Taxpayers transacting with the government or any of its political subdivisions, instrumentalities or agencies, including government owned or controlled corporation (GOCC) (Selection Code: GPA).

B. Medium Risk Taxpayers

1. Business Issue Risks/Complex Industries due to industry issues and changes in the status/registration of business.

1.1. Taxpayers with complex corporate structures, including mergers/consolidations/split-up or down/ spin-offs and other types of corporate reorganizations (Selection code: CCS);

1.2. Taxpayers with application for cessation/retirement of business (Selection Code: CES);

1.3. Taxpayers with multiple branches/outlets all over the Philippines but reported low sales (Selection Code: RLS);

1.4. Taxpayers with sale or transfer of business. (Selection Code: STB); and

1.5. Taxpayers with multiple lines of business with different basis for computation of VAT liabilities (e.g. sale of services - VAT is computed on gross receipts, sale of goods where VAT is based on gross sales, etc.) (Selection Code: MLB).

2. AUDIT POLICIES AND PROCEDURES

1. The VAT Audit Program shall be implemented on September 2012 in LTS. A VAT Audit Team shall be created and will be composed of two (2) VAT Audit Team Heads and five (5) audit groups.

2. The VAT Audit Team shall be given the responsibility of investigating VAT returns of LTS taxpayers. They will prepare list of taxpayers (using the format prescribed in Annex "A") recommended for audit based on the selection criteria specified in this Order and submit the same to the Assistant Commissioner, Large Taxpayers Service (ACIR, LTS) for approval.

3. One (1) e-Letter of Authority (eLA) shall be issued for each taxable quarter/semester duly approved by the ACIR, LTS upon the recommendation of the VAT Audit Team Heads. However, if there is a deficiency for the current period under audit, and a possibility that the tax issue that gave rise to deficiency would also be present in prior period/s, an eLA can also be issued for the said period/s.

4. The basic audit procedures prescribed in Revenue Audit Memorandum Order (RAMO) No. 1-99 and other issuances particularly those with impact on VAT audit shall be strictly observed. Moreover, ROs must thoroughly understand the business operation of the taxpayer and a detailed discussion must be included in the memorandum report.

5. If a taxpayer has already been issued an eLA for all internal revenue tax liabilities for a particular period and a significant finding/s on VAT was uncovered, it should be communicated to the VAT Audit Team for possible risk identification in the current period under audit.

6. If an eLA has already been issued under the VAT Audit Program and the taxpayer becomes a candidate for regular audit in the concerned division based on the selection criteria under the annual audit program, the request for eLA should not include the VAT liability of the taxpayer.

7. The VAT Audit Team Head should transmit a copy of the VAT audit findings to the concerned Division conducting the regular audit to determine their relevance and effect to other tax liabilities.

8. Assignment of cases shall be done by the VAT Audit Team Head for their respective groups/members in accordance with existing regulations, taking into consideration the accomplishment and workloads of the Revenue Officers (ROs).

9. The initial workload of each RO under this program shall be twenty (20) cases. In no case shall the total number of cases handled by an RO exceed twenty (20) cases which shall be subject to replenishment after every submission of report/s of investigation of closed case/s.

   Cases returned to the RO after review for compliance of some findings shall be given top priority action and must be submitted within fifteen (15) days from receipt of the docket.

   Cases returned for continuance of investigation due to resolution of certain legal issues or after compliance to the Subpoena Duces Tecum (SDT) by the taxpayer, shall form part of the inventory of the RO.

   However, excess in the allowable limit of twenty (20) cases as a result of returned case/s shall not be considered as a violation of this Order.

10. The mandatory reporting requirements prescribed in Annex "B" of Revenue Memorandum Order (RMO) No. 53-98, as amended by RMO Nos. 16-2007, 22-2007 and Revenue Memorandum Circular (RMC) No. 29-2009, in relation to big ticket items, shall be strictly observed by all ROs concerned.

11. The issuance of Preliminary Assessment Notice (PAN) and Final Assessment Notice (FAN) for deficiency VAT liabilities as a result of the audit will be in accordance with existing regulations/issuances.

12. If the taxpayer fails to settle/pay the VAT assessment or fails to file a protest within the prescribed period from receipt of the PAN, the VAT Audit Taskforce shall recommend the issuance and prepare the Final Assessment Notice (FAN) to be approved and signed by the ACIR, LTS.

13. All audit reports shall be approved by the ACIR, LTS thru the concerned VAT Audit Team Head.

14. Any violation of this Order shall be a ground for the imposition of appropriate administrative sanctions/penalties.

3. REPORTING REQUIREMENTS

1. The Group Supervisors shall submit Monthly Report of All Cases Acted Upon (Annex ”B”) and Monthly Report of Pending Cases (Annex “C”) of their respective groups to the concerned VAT Audit Team Head who will submit Consolidated Monthly Reports (Annexes B1 and C1) to the ACIR, LTS on or before the 8th day of the following month.

2. The ACIR, LTS shall submit to the Management Committee a quarterly report on the results of audit with appropriate recommended action/s based on the reports submitted by the VAT Audit Team Heads.

4. DEVIATION FROM POLICY

Any deviation from the above policies shall be allowed only upon prior written authorization from the Commissioner, as recommended by the ACIR, LTS.

5. REPEALING CLAUSE

All other issuances inconsistent herewith are hereby modified or repealed accordingly.

6. EFFECTIVITY

This Order takes effect immediately.

(Original Signed)
KIM S. JACINTO-HENARES
Commissioner of Internal Revenue

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