REVENUE MEMORANDUM ORDER NO. 16-2007 issued on July 23, 2007

prescribes additional procedures in the audit of input taxes claimed in the Value-Added Tax (VAT) returns by Revenue Officers (ROs) and amends Annex B of RMO No. 53-98 relative 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 ROs relative thereto, all of which shall form an integral part of the tax docket.

The legitimacy and factual existence of “big-ticket” items of purchases should be ascertained and validated by ROs whether these have been appropriately recorded in the books of accounts and reflected in the filed tax returns of taxpayers. “Big-ticket” items of purchases refer to purchases made from suppliers whose individual gross annual cumulative sales to the particular taxpayer-purchaser accounts to more than 5% of said taxpayer-purchaser’s annual gross purchases covering the period under audit.

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/Income Tax returns and in the summary lists of sales submitted to the BIR.

If upon matching, it is ascertained that the declaration of purchases by the taxpayer is true and valid, 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 Revenue District Office/Large Taxpayers (RDO/LT) office where the particular supplier is registered, copy furnished the Assistant Commissioner (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 Letter of Authority to investigate this supplier in case he/it is not yet audited for the subject period. 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.

If upon verification with the Audit Information, Tax Exemption and Incentives Division 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:

a. The ROs 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.

b. 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 ITS-Returns Processing System, 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.

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. 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.

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.