REVENUE MEMORANDUM ORDER NO. 19-2012 issued on August 31, 2012 prescribes the policies and procedures in the Value-Added Tax (VAT) Audit Program for Large Taxpayers Service (LTS).

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

a. High Risk Taxpayers
   a.1 Factors/Risk Characteristics resulting to under-reporting of VAT liabilities and non-remittance of VAT collection.
      - Taxpayers with significant increase in exempt/zero-rated sales/revenues
      - Taxpayers whose VAT returns reflect substantial input taxes such as when the total input taxes claimed exceed 75% of the total output tax
      - Taxpayers with history of declaring excess input tax carry over
      - Taxpayers filing VAT exempt tax returns due to availment of tax incentives or tax exemptions
      - Taxpayers with history of filing claim for refund and/or request for issuance of Tax Credit Certificate (TCC)
      - Taxpayers with substantial sales but reporting net loss
      - Taxpayers with drastic decrease in reported sales/VAT payments or with marked deviation from industry trends
      - Taxpayers identified as High Risk based on the result of the LTS Compliance Risk Matrix analysis
   a.2 Compliance Risk Characteristics due to non-compliance to administrative requirements.
      - Taxpayers with acquisition of more than One (1) million in capital assets and failed to amortize the input tax as required
      - Taxpayers who are non-compliant in the submission of SLP and SLS, MAP, SAWT and other mandatory requirements
      - Taxpayers who are non-compliant with RMO No. 12-2012 – The Electronic Sales Reporting
      - Taxpayers transacting with the government or any of its political subdivisions, instrumentalities or agencies, including Government -Owned or Controlled Corporation (GOCC)

b. Medium Risk Taxpayers
   b.1 Business Issue Risks/Complex Industries due to industry issues and changes in the status/registration of business.
      - Taxpayers with complex corporate structures, including mergers/consolidations/split-up or down/spin-offs and other types of corporate reorganizations
      - Taxpayers with application for cessation/retirement of business
      - Taxpayers with multiple branches/outlets all over the Philippines but reported low sales
      - Taxpayers with sale or transfer of business
      - Taxpayers with multiple lines of business with different basis for computation of VAT

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
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 the Order and submit the same to the Assistant Commissioner, Large Taxpayers Service (ACIR, LTS) for approval.

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.

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. 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.

Assignment of cases shall be done by the VAT Audit Team Head for their respective groups/members. Cases returned to the Revenue Officer (RO) after review for compliance of some findings shall be given top priority action and must be submitted within 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 by the taxpayer, shall form part of the inventory of the RO. However, excess in the allowable limit of 20 cases as a result of returned case/s shall not be considered as a violation of this Order.

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. 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 Task Force shall recommend the issuance and prepare the FAN to be approved and signed by the ACIR, LTS.

The Group Supervisors shall submit Monthly Report of All Cases Acted Upon and Monthly Report of Pending Cases of their respective groups to the concerned VAT Audit Team Head who will submit Consolidated Monthly Reports to the ACIR, LTS on or before the 8th day of the following month. 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.

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