REVENUE MEMORANDUM ORDER NO. 20-2012 issued on September 5, 2012 prescribes the policies and procedures for the implementation of the 2012 Value-Added Tax (VAT) Audit Program.

The VAT Audit Program shall be implemented with pilot roll-out in September 2012 in Revenue Region (RR) Nos. 5–Caloocan, 6–Manila (except Revenue District Office [RDO] Nos. 35–Romblon, Romblon, 36–Puerto Princesa City, Palawan and 37–San Jose, Occidental Mindoro), 7–Quezon City and 8–Makati covering the 1st and 2nd quarters of 2012 VAT Returns and every quarter thereafter. Subsequently, the Program shall be rolled out to other Regional Offices upon notification.

The following VAT returns shall be excluded from the coverage of the Order:

a. Tax credit/refund claims; and
b. VAT returns selected for audit by the National Investigation Division under the Enforcement Service and by the Special Investigation Division of the Revenue Regional Offices.

VAT taxpayers for audit/investigation under the said regions shall be selected based on the following criteria:

a. Taxpayers whose VAT compliance is below the established 2010 or 2011 industry benchmarks, whichever is available
b. Taxpayers whose VAT returns for the succeeding quarters show a substantial decrease in tax payment
c. Taxpayers whose VAT returns reflect substantial input taxes from importations and local purchases, such as when the total purchases claimed exceed 75% of the total sales
d. Taxpayers with no VAT return filed in any quarter or all of the quarters in 2011
e. Taxpayers who are reporting/filing “No Operations” Returns
f. Taxpayers with a history of declaring excess input tax carry over for all the quarters of 2011
g. Taxpayers who have not submitted their Summary List of Sales (SLS) or Purchases (SLP) for any of the quarters of 2011
h. Taxpayers with substantial sales but showing net loss
i. Taxpayers identified to have significant under-declaration of sales as a result of the Tax Compliance Verification Drive and/or other programs of the Bureau
j. Taxpayers filing exempt VAT returns due to availment of tax incentives or tax exemptions
k. Such other taxpayers selected by the head of the VAT Audit Team subject to approval by the Regional Director

A VAT Audit Team shall be created in the pilot regions. Each region shall have one (1) VAT Audit Team with at least 25 Revenue Officers (ROs)–Assessment, including Group Supervisors, to be headed by the Chief of the Assessment Division (AD).

Only ROs-Assessment who are part of the VAT Audit Team of their respective region shall be authorized to conduct audit and investigation of VAT returns covered by the Order, whether in principal or assisting capacity.

The Electronic Letter of Authority Monitoring System (eLAMS) shall be used in the request, approval and issuance of Electronic Letter of Authority (eLAs), as well as in updating the status of the same.

Based on the audit findings or violations uncovered during the audit, the VAT Audit Head may recommend surveillance, closure or other enforcement activity on the taxpayer.