
Based on Sections 110(B) and 112(A) of the 1997 Tax Code, as amended, the unutilized creditable input taxes attributable to zero-rated sales can only be recovered through the application for refund or tax credit. Thus, the proposition that accumulated and unapplied input VAT arising from Cekas’ purchase of goods and services after the expiration of the 2 year prescriptive period may be expensed outright is denied for lack of legal basis.

Accordingly, all employees engaged in the audit and review of audit cases are enjoined to disallow unutilized creditable input taxes attributable to VAT zero-rated sales that are claimed as deductions for Income Tax purposes.