

REVENUE MEMORANDUM ORDER NO. 59-2016 issued on September 21, 2016 prescribes the policies in the conduct of issue-based audit under the Value-Added Tax (VAT) Audit Program (VAP).

The Order shall cover the issue-based audit/investigation of VAT liabilities of VAT taxpayers by the VAT Audit Section in the Assessment Division of Revenue Regional Offices for taxable quarter(s) of 2015 and thereafter.

Taxpayers with VAT returns reflecting erroneous input tax carry-over are mandatory cases for issue-based audit.

The priority cases for issue-based audit are the following:

1. Taxpayers whose VAT compliance is below the established industry benchmarks;
2. Taxpayers with zero-rated and/or exempt sales due to availment of tax incentives or exemptions;
3. Taxpayers engaged in business where 80%, more or less, of their transactions are on a cash basis and whose purchases of goods and services do not generate substantial amount of input tax, such as restaurants, remittance/payment centers, etc.;
4. Taxpayers with VATable transactions which were subjected to expanded Withholding Tax but with no VAT remittance (based on BIR Form Nos. 2550Q and 1604);
5. Taxpayers who failed to remit/declare VAT due from purchase of services from non-resident aliens (based on BIR Form Nos. 2550Q and 1600);
6. Taxpayers who fail to declare gross sales/receipts subjected to VAT withholding on purchases of goods/services with waiver of privilege to claim input tax credit [creditable]; (based on BIR Form Nos. 2550Q and 1600);
7. Taxpayers whose gross sales/receipts per Income Tax returns are greater than gross sales/receipts declared per VAT returns; and
8. Taxpayers filing Percentage Tax returns whose gross sales/receipts exceed the VAT threshold.

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

1. Claims for issuance of Tax Credit Certificates/refunds; and
2. VAT returns selected for audit by the National Investigation Division under the Enforcement and Advocacy Service and by the Regional Investigation Division of the Revenue Regional Offices.

The detailed policies and procedures in the conduct of issue-based audit as well as the reporting requirements are specified in the Order.