VERIFICATION PROCEDURES FOR SALES OF SERVICES

The assigned Revenue Officer shall:

1. Compare each category and amount of sales in the quarterly VAT returns, audited financial statements and general ledger with the classification and amount declared in the application for VAT Credit/ refund. Identify and reconcile discrepancies noted to determine taxable and exempt transactions, which will be subject to output tax or allocation of input tax.

2. Determine whether sales declared as zero-rated actually emanate from export sales and other transactions that may qualify as zero-rated or effectively zero-rated sales by verifying service contracts and/or other related documents.

3. Verify from the financial statements, VAT returns and books of accounts, where necessary, if there are local sales of services and exempt transactions which should not be subject to zero rate.

4. Check the correctness of the submitted Schedule of Zero-Rated Sales of Services (Annex A 1.3) and completeness of the supporting documents through the following procedures:
   a. Examine official receipts and/or other proofs of exportation of services.
   b. Check the accuracy of the details in the schedule against the official receipts, and proofs of inward remittances of foreign currency representing proceeds from zero-rated sales of services.
   c. Ascertain if the proceeds were paid for in acceptable foreign currency and accounted for in accordance with the rules and regulations of the Bangko Sentral ng Pilipinas (BSP) by verifying the supporting bank credit memo, bank certifications, taxpayers' passbook or any document issued by the bank to prove the inward remittance of foreign currency from the zero-rated sales.

5. In case of constructive remittance, such as offsetting arrangement, secure a copy of any of the following:
   - Board resolution as to offsetting arrangement
   - Intercompany debit or credit memo on the amount of constructive remittance under the offsetting arrangement
   - Loan documents or proofs of intercompany advances

6. If the amount of the inward remittance, whether actual or constructive, is less than the total declared zero-rated sales, the discrepancy shall be construed as unremitted export sales. Hence, the input tax pertaining to the discrepancy shall be deducted from the allowable input tax using the following formula:

   a. For companies with purely zero-rated sales of services:

$$\frac{\text{Unremitted Export Sales}}{\text{Total Zero-Rated Sales}} \times \text{Allowable Input Tax} = \text{Input Tax Allocable to Unremitted Export Sales}$$

b. For companies with zero-rated and taxable transactions:

$$\frac{\text{Unremitted Export Sales}}{\text{Total Sales}} \times \text{Allowable Input Tax} = \text{Input Tax Allocable to Unremitted Export Sales}$$

Computation of Allowable Input Tax:

Total input tax claimed	P xxx
Less: Disallowed input tax per verification	xxx
Allowable input tax	P xxx

An illustration is provided for in Annex “C.3”

7. For indirect export sales or zero-rated sales other than those emanating from direct exports, verify from Audit Information Tax Exemption and Incentives Division (AITEID) the indorsement of investment promotion agency (IPA) on the exemptions/incentives granted during the period covered by the claim to the registered business enterprise (RBE) claiming such incentive. In cases where the records of AITEID do not show that the respective IPA has endorsed the RBE, verify from the IPA whether such RBE is qualified for certain tax incentives, particularly VAT zero-rating. In cases where the authenticity of the document can be verified electronically/online [e.g., through “quick-response” (QR) codes)], attach to the docket a printout of the screenshot of the result of the verification from the facility hosting the electronic/online system with the duly-signed notation that the same was verified through the said system.

8. Determine compliance with invoicing requirements by:

   a. Verifying the Authority to Print (ATP) of the receipts/invoices or approved Permit to Use Computerized Accounting System issued by the office where the taxpayer is registered;

   b. Checking the issuance of official receipts in accordance with Section113(B) of the Tax Code, as amended, and RMO No. 12-2013 and/or existing issuances; and

   c. Ascertaining the issuance of official receipts for VATable sales, zero-rated sales and exempt sales by taxpayers with mixed transactions in compliance with the invoicing requirements under Section 113 of the Tax Code of 1997, as amended.

9. Ensure that all issued official receipts are accounted for, including those issued by branches. Note any break in the sequence of the serial numbers of official receipts issued and ask the taxpayer to account for the missing numbers. In case of cancellation, look for the original copy and indicate on the working papers the cancelled numbers, as well as those which are unaccounted.

   Determine if the unaccounted receipts pertain to local sales of service which should be subject to output tax.

10. Ascertain any violation of invoicing requirements that should be imposed the compromise penalty under RMO No. 7-2015 and/or existing issuances.

11. Determine any "deemed sales" as defined in Section 106(B) of the Tax Code, as amended, and deduct the corresponding output tax from the claim, where applicable.

12. Check if transactions with "Statements of Account", Collection or Acknowledgment Receipts and Debit Notes have corresponding issued official receipts and recorded as sales. Any supplementary documents such as these without official receipts should be verified if they are sales subject to output tax, which has to be deducted from the claim.

13. Determine if the taxpayer is also engaged in the sales of goods which should have issued sales invoices and based on the taxable sales of goods, compute the corresponding output tax that should be deducted from the claim.