

## VERIFICATION OF PURCHASES AND INPUT TAX

The assigned Revenue Official shall:

1. Compare the nature and amount of purchases per VAT returns, financial statements and general ledger with those reflected in the application for VAT refund. Determine any discrepancy and request for reconciliation of the discrepancy.
2. Check the correctness and completeness of the submitted schedule of purchases (Annex "A.1.6") through the following procedures:
  - a. Verify the accuracy of the details in the schedule against the 'suppliers'/'sellers' sales invoices, official receipts, deed of sale and other documents in support of the purchase of goods/ properties and services.
  - b. Check the correctness of the input tax shown separately on the invoice/receipt and match with the amount per schedule.
3. Ascertain that input tax credit is not recognized from the following:
  - a. Purchases from non-VAT and/or exempt persons;
  - b. Effectively zero-rated purchases;
  - c. Purchases from VAT persons, which are personal in nature or not made in the course of trade or business; and
  - d. Purchases of tax-exempt goods, properties or services from VAT-registered persons although covered by VAT invoices or receipts.
4. Determine compliance with the substantiation requirements for claims of input tax credit.
  - a. For domestic purchases of goods, properties and services in the course of trade or business, these must be supported by VAT invoices and /or official receipts, showing the information required in Sec. 113 (B) and 237 of the Tax Code, as amended.
 

A cash register machine tape shall constitute valid proof of input tax credit only if it shows the information required under the aforementioned issuances, as implemented in Section 4.110.8(4) of RR No. 16-2005, and Section 2 of RR No. 16-2018.
  - b. Input tax on purchases of real property should be supported by a copy of the public instrument (i.e., deed of absolute sale, deed of conditional sale, contract/agreement to sell) together with the VAT invoice and/or official receipt issued by the seller, as implemented in Sec. 4.110-8(a)(3) of RR No. 16-2005, as amended.
  - c. Claims for refund of unutilized input tax on importation shall be supported with a VAT Payment Certification from the Bureau of Customs (BOC) Revenue Accounting Division (RAD) including the photocopies of Import Entry and Internal Revenue Declarations (IERD) and/or Single Administrative Document (SAD), Statement of Settlement of Duties and Taxes (SSDT).

5. Validate the “VAT Payment Certification” issued by the Revenue Accounting Division of the BOC with the scanned copy of the said certification from the said office sent to the dedicated email address of the processing office of the BIR.
6. Verify actual existence of goods or properties that generate input tax credits whenever practicable and ascertain whether the same are actually used in the course of business.
7. Verify the authenticity and validity of the input taxes claimed by the taxpayer in his/its VAT returns. Per RMO Nos. 16-2007 and 22-2007 and RMC No. 29-2009, it is not only enough that the taxpayer is able to present, upon audit, the corresponding sales invoices/official receipts to evidence these purchases declared, but there is a further need to ascertain the legitimacy and factual existence of "big-ticket" items of purchases and validate whether these have been appropriately recorded in the books of accounts and reflected in the filed tax returns of both the taxpayer-claimant and the seller/supplier of goods/ services.

For this purpose, "big-ticket" items of purchases shall refer to local purchases made from suppliers whose individual gross cumulative sales to the particular taxpayer-purchaser accounts to more than five percent (5%) of said taxpayer-purchaser's annual or quarterly gross purchases, whichever is applicable, covering the period under audit.

8. Check the authenticity and correctness of substantial claims and “big ticket” items of input tax credits by:
  - a. Requesting for Summary of Purchases from the NO
    - a.1 Ascertain that the purchases made by the taxpayer for which input taxes have been claimed were likewise appropriately reported as sales by his/its respective suppliers in their corresponding VAT Returns/Income Tax Returns and in the summary lists of sales submitted to the BIR following the procedures in RMO No. 16-2007.
    - a.2 In the absence of the Summary of Purchases in the NO, perform the following procedures:
      - a.2.1 Access the BIR’s Information System to determine whether the suppliers are duly registered as VAT taxpayers. If it is found out that the suppliers are not registered, or registered as Non-VAT taxpayers only but issuing VAT invoices, then pertinent information relative to the supplier and sales made to the taxpayer-claimant must be endorsed to the concerned investigating office having jurisdiction over the taxpayer-claimant for appropriate action.

Disallowance of the input taxes attributable to the sales made by these questionable suppliers shall only be done if, aside from the sales invoice, no other evidence can be presented by the taxpayer-claimant to substantiate the authenticity of other purchases made.

- a.2.2 Obtain proof/evidence to substantiate the authenticity of the purchases such as copies of delivery receipts of the suppliers/check vouchers/paid checks issued by the taxpayer-claimant with “big ticket” purchases.

b. Determining the allowable input tax on purchases of capital goods

The aggregate acquisition cost of a depreciable asset in any calendar month refers to the total price, excluding the VAT, agreed upon for one or more assets acquired and not on the payments actually made during the calendar month. Thus, an asset acquired in installment for an acquisition cost of more than P 1,000,000.00, excluding the VAT, will be subject to the amortization of input tax despite the fact that the monthly payments/installments may not exceed P 1,000,000.00.

- b.1 Where the aggregate acquisition cost (exclusive of VAT) of the existing or finished depreciable capital goods purchased or imported during any calendar month does not exceed one million pesos (P 1,000,000), the total input taxes will be allowable as credit against output tax in the month of acquisition.
- b.2 Where the aggregate acquisition cost (exclusive of VAT) of the depreciable capital goods in a calendar month exceeds one million pesos (P 1,000,000), regardless of the acquisition cost of each capital asset purchased/imported, the input taxes shall be claimed as credit against output tax in the following manner:
  - b.2.1 If the estimated useful life of a capital asset is five (5) years or more, the input tax shall be spread evenly over a period of sixty (60) months and the claim for input tax credit will commence in the calendar month when the capital asset is acquired.
  - b.2.2 If the estimated useful life of a capital asset is less than 5 years, the input tax shall be spread evenly on a monthly basis by dividing the input tax by the actual number of months comprising the estimated useful life of the capital asset. The claim for input tax credit shall commence in the calendar month that the capital assets/goods were acquired.
  - b.2.3 For the amortized portion of the input VAT on aggregate purchases of capital goods exceeding one million pesos (P1,000,000.00) in a month pursuant to Section 110(A)(2)(b) of the Tax Code, as amended, the following rules shall apply:
    - b.2.3.1 For current claims, the corresponding sales invoices and/or official receipts, including proofs of payment, if qualified as “big ticket” purchase, shall be required to be submitted and verified.

b.2.3.2 For the amortized deferred input VAT which originated from purchases prior to the period of claim, acceptability of supporting documents is clarified as follows:

b.2.3.2.1 If the source documents of the capital goods were submitted and verified during the time they were claimed, there is no need to re-submit the same source documents. Instead, the schedule of amortization of deferred input VAT in the approved report will be the basis in determining the amortized portion in the subsequent claims. The copy of the schedule should be authenticated by the head of the processing office by marking “Certified True Copy from the Original” on each and every page thereon to clearly show that the purchases have been duly verified in the previous VAT refund claim/s. In this regard, the processing office shall maintain a file for every claimant with amortized input VAT on purchases of capital goods exceeding P1,000,000.00 in a month. The processing office shall compare/reconcile the current amount claimed vis-à-vis the amount indicated in the schedule/s.

b.2.3.2.2 For claims coming from the amortized portion of the deferred input VAT on importation of capital goods with previous certifications from BOC, such certifications should be marked as “Certified True Copy from the Original” by the head of the processing office in addition to the schedules as certified mentioned above.

b.3 In case the input VAT of capital goods was disallowed due to non-compliance with the invoicing requirements for local purchases or for some other reasons which may warrant absolute disallowance of the corresponding input VAT, the taxpayer-claimant is already barred from claiming the input VAT from the said purchases for the current claim and thereafter.

c. Determining the allowable input tax on Construction in Progress

Construction in progress (CIP) is the cost of construction work which is not yet completed. CIP is not depreciated until the asset is placed in service. Normally, upon completion, a CIP item is reclassified and the reclassified asset is capitalized and depreciated.

CIP is considered, for purposes of claiming input tax, as a purchase of service, the value of which shall be determined based on the progress billings. Until such time the construction has been completed, it will not qualify as capital goods as herein defined, in which case, input tax credit on such transaction can be recognized in the month the payment was made; Provided, that an official receipt of payment has been issued based on the progress billings.

In case of contract for the sale of service where only the labor will be supplied by the contractor and the materials will be purchased by the contractee from other suppliers, input tax credit on the labor contracted shall still be recognized on the month the payment was made based on a progress billing while input tax on the purchase of materials shall be recognized at the time the materials were purchased.

Once the input tax has already been claimed while the construction is still in progress, no additional input tax can be claimed upon completion of the asset when it has been reclassified as a depreciable capital asset and depreciated.”

For purchases of goods, check the subsequent payment of the items purchased and determine if there are discounts granted, returns and allowances. Input tax credit should be reduced by the VAT portion of the said adjustment to the purchase.

9. If a VAT-registered person is also engaged in zero-rated sales, exempt and taxable activities, determine the input taxes directly attributable to each activity. However, if the input taxes paid for purchases of goods, properties or services could not be directly attributable to any activity, the same shall be allocated as shown in the illustration in Annex “C.3”.