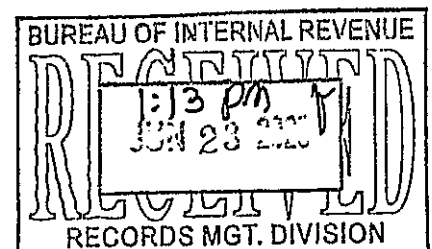


VERIFICATION PROCEDURES FOR SALE OF SERVICES

The assigned Revenue Officer shall:

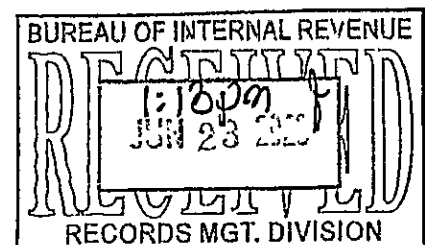
- I. Ascertain and perform the following:
 - a. Ensure that sales declared as zero-rated actually emanate from export sales and other transactions that may qualify as zero-rated or effectively zero-rated sales. Provided, further, that such sales are properly recorded and reported in the VAT returns, Audited Financial Statements and general ledger of the taxpayer-claimant.
 - b. Section 238, in relation to Section 113(A) of the Tax Code of 1997, as amended, mandates that a VAT-registered person shall issue a VAT official receipt for every lease of goods or properties, and for every sale, barter or exchange of services. For zero-rated sales, the term "zero-rated sale" shall be written or printed prominently on the receipt.
 - c. In the case of zero-rated sales under Sections 108(B)(1) and (2) of the Tax Code of 1997, as amended, the payments for the sales must have been made in acceptable foreign currency duly accounted for in accordance with the BSP rules and regulations.
 - d. For zero-rated sale of services to companies engaged in international shipping or air transport under Section 108(B)(4) of the Tax Code of 1997, as amended, respectively, photocopy of contracts or other acceptable documents, such as but not limited to certification from Civil Aviation Authority of the Philippines (CAAP) or Philippine Ports Authority (PPA), to prove that the service is rendered to foreign principals and/or clients that are engaged in international shipping or air transport.
 - e. In case of effectively VAT zero-rated sales anchored under the CREATE Act, the assigned ROs shall ensure compliance with the implementing rules and regulations of the said law particularly RR No. 21-2021 and RMC No. 24-2022, including its succeeding amendments, particularly on the following:
 - i. That the goods sold are used directly and exclusively in the registered project or activity of the registered export enterprise buyer;
 - ii. That the respective investment promotion agency (IPA) that has jurisdiction over the REE buyer has endorsed to the Bureau that the said REE is qualified to the incentives granted under the CREATE particularly VAT during the period covered by the claim. This can be verified from the Audit Information Tax Exemption and Incentives Division (AITEID).
 - iii. That the claimant has secured an approved VAT zero-rating from the BIR for claims covered upon the effectivity of RMC No. 24-2022 on March 9, 2022 up to the effectivity of RR No. 3-2023 on April 28, 2023;
 - iv. That the taxpayer has properly observed the transitory provisions under the CREATE Act and RMC No. 24-2022, as amended; and
 - v. That the goods sold are identifiable only to the qualified registered project or activity of the REE. Should the REE buyer has other registered activities or business operations and the particular purchase cannot be attributed to a specific activity, proper allocation of the input VAT claimed must be made.
 - f. For zero-rated sales other than those that are direct export or those covered by the incentives provision of Title XIII of the Tax Code of 1997, as amended by the CREATE Act, the documents required under the Special Laws (such as Renewable Energy Act) including its Implementing Rules and Regulations and corresponding BIR issuances shall be submitted.



- g. 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.
2. Compare each category and amount of sales in the quarterly VAT returns, audited financial statements and general ledger. Identify and reconcile discrepancies noted to determine taxable and exempt transactions, which will be subject to output tax or allocation of input tax.
 3. 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.
 4. 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.
 5. 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 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.
 6. In case of constructive remittance, such as offsetting arrangement, verify the agreements or any correspondences submitted therewith.
 7. 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:

$$\frac{\text{Unremitted Export Sales}}{\text{Total Zero-Rated Sales}} \times \frac{\text{Allowable Input Tax}}{\text{Input Tax}} = \text{Input Tax Allocable to Unremitted Export Sales}$$
 - b. For companies with zero-rated and taxable transactions:

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



Computation of Allowable Input Tax:

Total input tax claimed	P xxx
Less: Disallowed input tax per verification	<u>xxx</u>
Allowable input tax	<u>P xxx</u>

An illustration is provided for in Annex "D.3"

8. Determine compliance with invoicing requirements by:
 - a. Verifying whether the official receipts issued are covered by the Authority to Print (ATP) or approved Permit to Use Computerized Accounting System submitted by the taxpayer;
 - b. Checking the issuance of official receipts in accordance with Section 113(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 for. Determine if the unaccounted receipts pertain to local sales of services which should be subject to output tax.
10. Ascertain any violation of invoicing requirements wherein a compromise penalty under RMO No. 7-2015 and/or existing issuances may be imposed, for endorsement to concerned RDO/LTDO.
11. Determine any "deemed sales" as defined in Section 106(B) of the Tax Code of 1997, as amended, and deduct the corresponding output tax from the claim, where applicable.
12. 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.

