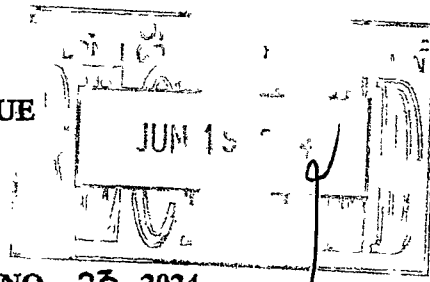




REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE
Quezon City



REVENUE MEMORANDUM ORDER NO. 23-2024

SUBJECT : Guidelines, Policies and Procedures in the Implementation of the Risk-Based Approach in the Verification and Processing of Value-Added Tax (VAT) Refund Claims, as Introduced in Republic Act (RA) No. 11976, Otherwise Known as the "Ease of Paying Taxes Act"

TO : All Internal Revenue Officials, Employees and Others Concerned

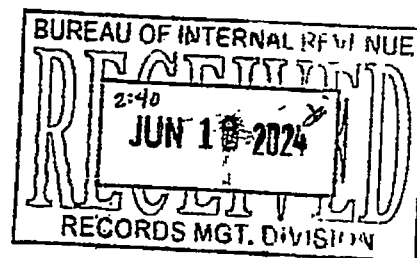
This Order is issued to provide guidelines, policies and procedures in the implementation of the risk-based approach in the verification of VAT refund claims under Section 112(A) of the National Internal Revenue Code of 1997, as amended (Tax Code) by RA No. 11976 or the Ease of Paying Taxes (EOPT) Act, and as implemented by Revenue Regulations (RR) No. 5-2024.

I. GENERAL POLICIES

1. The policies on risk-based verification of VAT refund claims pursuant to Section 112(A) of the Tax Code, as implemented under Section 3 of RR No. 5-2024, shall be strictly followed.
2. The assigned Revenue Officer/s (RO) of the VAT refund claim shall evaluate and ascertain from the necessary data available (i.e., documents submitted by the taxpayer-claimant and including those available in the records/database of the BIR) for purposes of classifying the risk level of VAT refund claims.
3. The concerned BIR office/s that possess/es the necessary data or information related to the risk factor identified in the matrix shall respond to the processing office/s within five (5) days upon receipt of the request for data from the latter. Requests and responses may be sent electronically via the dedicated email address of the concerned BIR office/s and processing office/s.

Inasmuch as there is a 90-day period mandated by law to process VAT refund claims, BIR office/s that failed to provide the data within the prescribed 5-day period shall be administratively dealt with pursuant to Section 269(J) of the Tax Code, if such failure or inaction has become the cause of the delay in the processing of the VAT refund claim.

4. The assigned ROs of the VAT refund claim shall include in their respective working papers the matrix on how the risk level of the VAT refund claim was determined, providing justifications and supporting documentations, if any.



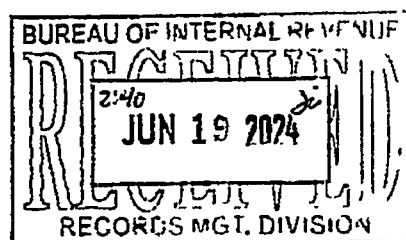
5. The assigned ROs shall follow the scope of the verification of sales and purchases of the VAT refund claims depending on the risk-level identified under Section II (2) of this Order.
6. The processing offices shall verify the record of VAT refund claims processed for the immediately preceding six (6) years with details of the taxpayer-claimant, amount of claim, period of claim, date of application, amount granted/denied and percentage of disallowance over the amount of claim, among others, which will be used by the assigned ROs in determining the risk-classification of the VAT refund claims.
7. For taxpayer-claimant filing other than the annual basis (i.e., quarterly, semestral, covering 3 quarters), the risk classification shall be made for every filing.
8. The processing offices shall furnish the Department of Finance, the BIR Management, and the Commission on Audit (COA), a monthly report on the VAT refund claims processed to include the risk level identified for each taxpayer-claimant.

II. IDENTIFICATION OF THE RISK CLASSIFICATION OF THE CLAIM

1. The following VAT refund claims shall be automatically considered as high-risk or shall require full verification:
 - a. Claims filed on April 27, 2024 to June 30, 2024;
 - b. Filed by first-time claimant which will remain as such for the succeeding three (3) VAT refund claims;
 - c. The fourth (4th) claim following the three (3) consecutive low-risk classification of processed VAT refund claims;
 - d. Filed pursuant to Section 112(B) of the Tax Code;
 - e. Filed by taxpayer-claimant tagged as Cannot Be Located (CBL);
 - f. Filed by taxpayer-claimants with complaints duly filed at the Department of Justice (DOJ) and/or those facing criminal cases before the Courts under the Run After Tax Evaders (RATE) and Run After Fake Transactions (RAFT) programs;
 - g. Filed by taxpayer-claimant who has fully denied claim from its immediately preceding VAT refund claim; and
 - h. Applications for VAT refund claim covering more than one taxable quarter, where at least one taxable quarter is already prescribed.

For purposes of this Order, first-time claimant shall refer to those with no history of VAT refund application since registration with the BIR or no previous administrative claim for VAT refund for the last five (5) years prior to the application of claim as certified by BIR Assessment Programs Division (APD).

The enumeration under (a) to (h) shall not be considered exclusive. Other cases may be considered as high-risk claims as determined by the Commissioner of Internal Revenue based on reasonable criteria (e.g. relevant risk factors not otherwise captured in the risk matrix under item 2 of this Section). These shall be covered by a separate revenue issuance.



2. The risk classification shall be determined using a point system which considers the following main risk factors:
 - a. Amount of VAT refund claim;
 - b. Frequency of filing VAT refund claims;
 - c. Tax compliance history; and
 - d. Other risk factors (e.g., level of disallowance from previous claims)
3. The risk matrix attached hereto as Annex "A" shall be used as guide by the processing offices in determining a particular VAT refund claim's risk level.
4. Failure to secure data from the concerned office or the unavailability of data related to a specific risk factor (e.g., data on COA disallowance, etc.) shall automatically be excluded from the matrix and the corresponding weight assigned thereto shall be reallocated to the risk factor that has corresponding data/information within the same category under the main risk factors mentioned in no. 2 above.

Proof that efforts have been made to secure data from the concerned office which have become futile must be properly documented such as, but not limited, to email/letter requests, follow-ups and other similar communications.

5. The resulting weighted average following the prescribed pointing system shall be interpreted as follows:

| | |
|---------------------|--|
| Low-risk: | 35.00% and below |
| Medium-risk: | above 35.00% but not exceeding 60.00% |
| High-risk: | above 60.00% |

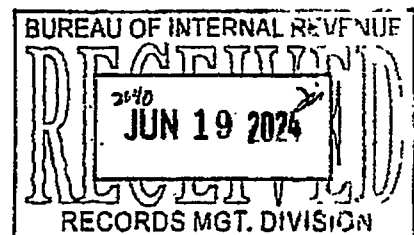
6. The risk matrix and risk factors shall be revisited and adjusted accordingly, if deemed necessary.

III. REFUND CLAIMS PROCEDURES BASED ON RISK CLASSIFICATION

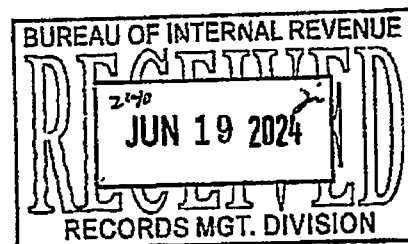
The scope of verification may be reduced in accordance with the identified risks as follows:

| Risk Level | Submission of Complete Documentary Requirements Prescribed by the BIR* | Scope of Verification of Sales | Scope of Verification of Purchases |
|------------|--|---|--|
| Low | Yes | No verification | No verification |
| Medium | Yes | At least 50% of the amount of sales <u>and</u> 50% of the total invoices/receipts issued including inward remittance and proof of VAT zero-rating | At least 50% of the total amount of purchases with input VAT claimed <u>and</u> 50% of suppliers with priority on "Big-Ticket" Purchases |
| High | Yes | 100% | 100% |

Note: * - Based on initial checking of the documents submitted during check-listing procedures only. This does not include thorough verification of the supporting documents for sales and purchases.



1. Before officially receiving the application, the assigned RO in the processing office shall perform the checklisting and pre-verification procedures to ensure the completeness of the submitted documentary requirements by the taxpayer-claimant. Only applications with complete documentary requirements shall be received and processed by the authorized processing office.
2. Processing of VAT refund claims classified as low-risk shall be limited only to the checking of the authenticity and completeness of documentary requirements under the Checklist of Mandatory Requirements in RMO No. 71-2023 (Annex A.1). Verification procedures for sales of goods and services as well as purchases and input tax shall no longer be performed.
3. For medium-risk claims, the default 50% verification rate shall be determined as follows:
 - a. **For sales transactions:**
 - i. Total or all invoices/receipts issued supporting the declared total sales for the period of claim (including other documents supporting zero-rating treatment such as bill of lading, inward remittance, etc.) shall be assigned random numbers, which shall be sorted from lowest to highest. The first 50% of the total invoices/receipts starting from the lowest randomly assigned number shall comprise the documents subject for verification.
 - ii. The sales documents to be examined shall account for at least 50% each of the total sales reported as zero-rated and exempt. If the total documents determined under item (a.i) is not sufficient to cover the minimum 50% of the total amount of zero-rated and exempt sales, additional documents to be examined shall be taken from the succeeding invoices/receipts randomly sorted as mentioned under item (a.i), until the minimum 50% of the total amount of zero-rated and exempt sales are covered.
 - iii. Sales adjustments as supported by credit/debit memo, journal vouchers and other relevant documents shall be fully verified in addition to the minimum 50% of sales to be verified.
 - iv. For sales transactions supported by provisional and final invoices/receipts (*e.g., mining industry*), such provisional and final invoices shall be selected and counted as one transaction for purposes of identifying the minimum 50% sales that will be verified.
 - b. **For local purchases with input VAT claimed:**
 - i. The selection of the documents for verification shall consider 50% of the total suppliers of local purchases with input VAT claimed, where suppliers for "big-ticket purchases" shall be prioritized.
 - ii. The non-big-ticket suppliers of local purchases with input VAT claimed shall be assigned random numbers, which shall be sorted from lowest to highest. The rest of the 50% of the minimum required suppliers (*i.e., after considering the*

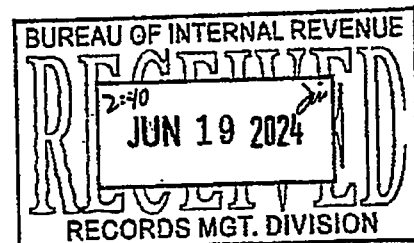


suppliers for big-ticket purchases) subject for verification shall then be taken from the list of suppliers sorted starting from the lowest randomly assigned number.

- iii. If the total documents determined under item (b.i) is not sufficient to cover the minimum 50% of the total local purchases with input VAT claimed, additional documents shall be examined which shall be taken from the transactions with the succeeding suppliers randomly sorted as mentioned under item (b.ii), until the minimum 50% of the total local purchases with input VAT claimed are covered.
- iv. Big-ticket purchases will be subject to 100% verification of the supporting purchase invoices/receipts, including the related proof of payment.

c. For importations with input VAT claimed:

- i. The selection of documents for verification shall consider 50% of the total suppliers of imported purchases of goods for which input VAT was claimed.
 - ii. The suppliers of imported purchases of goods with input VAT claimed shall be assigned random numbers, which shall be sorted from lowest to highest. The first 50% of the total suppliers of imported goods starting from the lowest randomly assigned number shall comprise the source for documents subject for verification.
 - iii. If the total documents determined under item (c.i) is not sufficient to cover the minimum 50% of the total importations with input VAT claimed, additional documents shall be examined which shall be taken from the transactions with the succeeding suppliers of imported goods randomly sorted as mentioned under item (c.ii), until the minimum 50% of the total importations with input VAT claimed are covered.
 - iv. Verification of claims for refund of unutilized input VAT on importations shall include the VAT Payment Certification issued by the Revenue Accounting Division of the Bureau of Customs and copies of Import Entry and Internal Revenue Declarations or Informal Import Declaration or Single Administrative Document submitted by the taxpayer-claimant as part of the mandatory requirements.
4. For medium-risk claims, in the event that the assigned ROs found at least 30% disallowance of the total amount of VAT refund claim upon examination of the default 50% verification rate, the risk classification shall be modified to high-risk claim, thereby mandating the performance of 100% verification on both sales and purchases.
 5. For high-risk claims, 100% verification of sales and purchases, including general verification procedures, shall be performed pursuant to the policies and procedures applicable to the year of application of the VAT refund.
 6. The RO-reviewer shall conduct a review of the endorsed docket of the claim, which will then be recommended either for approval/disapproval based on the evaluation of



the same documents that were verified by the processing office and following the same risk-based assessment made by the latter.

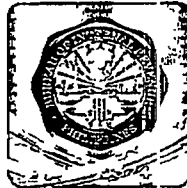
Checking of the related supporting documents (e.g., sales invoices/official receipts for purchases and sales including export documents and import documents) for medium- and high-risk claims shall be done on a sampling basis only due to limited time allotted for review and shall be limited only to the scope of verification performed by the processing office.

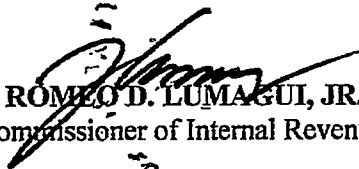
IV. REPEALING CLAUSE

All provisions of revenue issuances/memoranda or portions thereof that are inconsistent herewith are hereby repealed, amended or modified accordingly.

V. EFFECTIVITY

To provide ample time for the taxpayers and the BIR to adjust with the new requirements and procedures that will be imposed, this Order shall cover claims filed starting July 1, 2024 onwards.




ROMEO D. LUMAGUI, JR.
Commissioner of Internal Revenue

