

## Tax in a dot

### RMC 115-2024: Clarifications on the implementation of risk- based approach on VAT refund claims



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### TAX 2024-39

## Clarifications on the implementation of risk-based approach on VAT refund claims

The Bureau of Internal Revenue (BIR) clarified and addressed concerns in the risk-based approach on the verification and processing of value-added tax (VAT) refund claims pursuant to Section 112(A) of the National Internal Revenue Code of 1997 (Tax Code), as amended by Republic Act No. 11976 or the Ease of Paying Taxes (EOPT) Act, and as implemented by Revenue Regulations (RR) No. 5-2024 and Revenue Memorandum Order (RMO) No. 23-2024, as amended by RMO 42-2024.

**Q1: Is the submission of all documentary requirements mandated in the Checklist of Mandatory Requirements for VAT refund purposes, prescribed under Annex "A.1" of Revenue Memorandum Circular (RMC) No. 71-2023, required regardless of the identified risk level?**

**A1:** Yes. All documentary requirements mandated by the BIR for purposes of VAT refund under Section 112(A) of the Tax Code shall be submitted by the taxpayer regardless of the identified risk level.

**Q2: What constitutes the submission of complete documentary requirements for purposes of VAT refund claims and what is the consequence for non-compliance thereof?**

A2: The submission of complete documentary requirements shall be based on the completeness of documents as enumerated in the Checklist of Mandatory Requirements. Non-compliance with the completeness of mandatory requirements shall result in the non-acceptance of the VAT refund application.

**Q3: With the number of documents required in the said Checklist of Mandatory Requirements, which are sometimes voluminous, how can the receiving office ensure that all documents are indeed submitted?**

A3: During the checklisting of submitted documents, the receiving offices shall perform the following procedures:

- a. Check the completeness and propriety in the accomplishment of the application form for VAT refund, particularly those falling under "General Requirements".
- b. Check if the schedules comply with the prescribed format and that the required supporting documents are present but without confirmation if all the indicated transactions are individually supported.

**Q4: When does the 90-day period to process VAT refund claims start?**

A4: The 90-day period shall start from the time of acceptance of the processing office of the claim/application for VAT refund with complete documentary requirements.

**Q5: What is the difference between the "checklisting" procedure and the "verification" procedure?**

A5: The checklisting procedure is the initial stage in processing VAT refund claims and is limited only to ensuring the completeness of the submitted documentary requirements by the taxpayer-claimant. The verification procedure, on the other hand, is the process that ensures the correctness and accuracy of documents, involving thorough examination, evaluation, and a deeper level of analysis and investigation.

**Q6: Are there changes in the sequence of processing of VAT refund claims under the EOPT?**

A6: Yes. VAT refund claims have to be classified as to low-, medium-, or high-risk claims. The sequence in the processing of VAT refund claims shall now be as follows:

1. Checklisting based on the Checklist of Mandatory Requirements
2. Cursory checking of the completeness of supporting documents submitted for sales and purchases of goods and services after the application has been accepted
3. Determination of the risk level of the claim
4. Processing and verification for medium- and high-risk claims. Low-risk claims will be automatically recommended for refund, net of the effect of the sales and purchases that are tagged as no supporting documents (NSD).

**Q7: What is the impact of the noted NSD upon confirmation of the completeness of supporting documents submitted for sales and purchases of goods and services?**

A7: Sales and purchases determined to be NSD during cursory checking of the completeness of the supporting documents shall not be considered as incomplete submission, but shall result in the disallowance of the unsubstantiated portion of the sales or purchases regardless of the risk of classification.

However, in the event that the NSD for sales and purchases exceeded at least 1% of the total amount of sales (for sale transactions) or total amount of claim (for purchase transactions), the application shall automatically be classified as high-risk and shall require 100% verification.

**Q8: What is the treatment for missing/incomplete information in the schedules of sales and purchases submitted?**

A8: Applications with missing/incomplete information in the schedules of sales and purchases shall automatically be classified as high-risk claim and shall require 100% verification pursuant to RMO 42-2024.

**Q9: What does “No Verification” mean in the scope of verification of Sales and Purchases for low-risk claims?**

A9: Processing of VAT refund claims classified as low-risk shall be limited only to the checklisting and completeness of documentary requirements under the Checklist of Mandatory Requirements. Verification procedures for sales and purchases shall no longer be performed.

**Q10: What should the assigned Revenue Officer (RO) do if they notice any potential findings during the processing of VAT refund claims for low-risk claims?**

A10: If the assigned Revenue Officer (RO) notices any potential findings during the processing of the VAT refund claims, such findings shall be:

- a. Endorsed for further verification and/or consolidation with the existing audit if the processing is conducted by an office other than the BIR office with jurisdiction over the claimant; or
- b. Incorporate to the existing audit for the taxable year covered by the claim if processed within the same BIR office that has jurisdiction over the claimant.

**Q11: What verification procedures should be observed for medium- and high-risk claims?**

A11: The verification procedures outlined in RMO 23-2023 shall still apply, with the exception of sales and purchases transactions not included in the required percentage of documents to be verified for medium-risk claims.

**Q12: What is the treatment for local suppliers with input VAT claimed that are not selected for verification but are identified as Cannot Be Located (CBL) taxpayers and/or included in the Run After Fake Transactions (RAFT) program for medium-risk claims?**

A12: Input VAT claimed from local suppliers that are not selected for verification but are identified as CBL taxpayers shall not be allowed and shall form part of the disallowance of the claim pursuant to RMC 29-2023.

Similarly, input VAT claimed from local suppliers not selected for verification but included in the RAFT program shall not be allowed, leading to outright disallowance.

**Q13: What is the effectivity of this Circular?**

A13: This Circular shall take effect immediately upon posting on the BIR website. This shall cover ongoing VAT refund claims that are currently being processed and were not endorsed for review by the reviewing offices.

*Please see attached Revenue Memorandum Circular No. 115-2024 for your reference.*

## Get in touch

Should you have any comments or questions arising from this newsletter, please contact our Tax & Legal Partners:



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