REPUBLIC OF THE PHILIPPINES
COURT OF TAX APPEALS
QUEZON CITY

THIRD DIVISION

MD RIO VISTA AGRI-VENTURES, INC., *Petitioner,*	**CTA CASE NO. 10972**
	Members:
- versus -	**MANAHAN**, *Chairperson,* **REYES-FAJARDO, ANGELES, *JJ.***
COMMISSIONER OF INTERNAL REVENUE, *Respondent.*	Promulgated:
	DEC 15 2025 4:20 p.m.

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DECISION

ANGELES, *J.*:

Before the Court is a *Petition for Review*[1] filed by MD Rio Vista Agri-Ventures Inc. (petitioner) on September 7, 2022, seeking to reverse and set aside the VAT Refund Notice dated June 7, 2022 issued by respondent Commissioner of Internal Revenue through Assistant Commissioner Maria Luisa I. Belen, denying in full petitioner's value-added tax (VAT) refund application for being contrary to law and for its utter lack of merit. Petitioner likewise prays that the Court grant its claim for VAT refund in the amount of Php9,489,325.11.

THE PARTIES

Petitioner is a corporation duly organized and existing under and by virtue of Philippine laws.[2] It is registered with the Bureau of Internal Revenue (BIR) - Revenue District No. 112, under Taxpayer Identification Number (TIN) 005-210-007-000, with address at Pangi Maco Comval Province.[3]

[1] *Petition for Review*, Docket - Vol. 1, pp. 6 to 39.
[2] Exhibits "P-2," "P-12," "P-13," and "P-14," Docket – Vol. 2, pp. 768 to 790 and 813 to 828, respectively.
[3] Exhibit "P-3," Docket – Vol. 2, p. 791.

Petitioner was established primarily to engage in the business of developing and operating agricultural lands, particularly in planting and cultivating Cavendish bananas and other farm products for local consumption and for export.[4] It focused on growing Cavendish bananas which were heavily exported to the Japanese market.[5]

Respondent is the duly-appointed Commissioner of the Bureau of Internal Revenue, vested under the appropriate laws with the authority to carry out the functions, duties and responsibilities of said office, including *inter alia*, the power to decide disputed assessments, grant tax refunds and issue tax credit certificates, pursuant to the provisions of the National Internal Revenue Code (NIRC) of the Philippines, as amended, and other tax laws, rules and regulations.[6]

FACTS

On June 13, 2017, petitioner filed with BIR Revenue Region No. 19 (Davao City), an application to use a complete Computerized Accounting System (CAS).[7] The application included "e-invoicing" wherein the CAS is able to generate electronic records and invoices.[8]

Sometime in March 2018, the Bureau of Customs (BOC) informed petitioner of the mandatory submission of commercial invoices to support its export sales.[9] Thus, petitioner was given until August 2019 to comply with the BOC's directives and to make the necessary change on its header from "Charge Sales Invoice" to "Commercial Sales Invoice."[10]

In response, petitioner applied with the BIR for a new Authority to Print (ATP) for sales invoices to replace its loose-leaf Charge Sales Invoices with Commercial Invoices, in compliance with the BOC's directive.[11]

On April 10, 2018, the BIR issued ATP No. 2AU001949733 authorizing petitioner to print Commercial Sales Invoice.[12] Petitioner submitted the same to the BOC to prove compliance with its directive.[13]

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[4] Par. 10, *Petition for Review*, Docket – Vol. 1, pp. 8 to 9.
[5] *Id.*
[6] Joint Stipulation of Facts, *Joint Stipulation of Facts and Issues* (JSFI), Docket – Vol. 1, p. 411.
[7] Par. 18, *Petition for Review*, p. 10.
[8] *Id.*
[9] Par. 19, *Petition for Review*, Docket – Vol. 1, p. 11.
[10] *Id.*
[11] Par. 20, *Petition for Review*, Docket – Vol. 1, p.11.
[12] Exhibit "P-9," Docket – Vol. 2, p. 806.
[13] Par. 21, *Petition for Review*, Docket – Vol. 1, p.11.

On October 10, 2018, the petitioner received Permit to Use (PTU) No. 1810_0112_PTU_CAS_000351 effective from January 1, 2019 to December 31, 2023.[14] The PTU approved petitioner's CAS, including its e-invoicing module, and contained the following system description:[15]

Main Software/Core System

Software Name:	SAP Business One
Version Number:	Version 9.2 PL07
Release No. and/or Date:	2017

Prior to the effectivity of its PTUCAS, petitioner continued to issue loose-leaf commercial sales invoices.[16] However, beginning January 1, 2019, petitioner fully transitioned to the use of its CAS.[17]

Petitioner likewise updated the header of the computer-generated sales invoice from "Charge Sales Invoice" to "Charge Sales Invoice/Commercial Invoice" to reflect the ATP issued by the BIR on April 10, 2018.[18]

Petitioner filed its Amended *Quarterly VAT Returns* (BIR Form No. 2550-Q) for the 1st to 4th quarters of taxable year (TY) 2020 on the following dates:

Period (Taxable Year 2019)	Date of Filing	Reference No.
1st Quarter (January 1 to March 31)[19]	June 16, 2021	102100042329826
2nd Quarter (April 1 to June 30)[20]	June 16, 2021	102100042330829
3rd Quarter (July 1 to September 30)[21]	June 21, 2021	102100042397209
4th Quarter (October 1 to December 31)[22]	June 21, 2021	102100042397728

On March 31, 2022, petitioner filed with the VAT Credit Audit Division (VCAD) of the BIR National Office an *Application for Tax Credits/Refunds* (BIR Form No. 1914)[23] for VAT refund, in the amount of Php9,489,325.11, covering the period from January 1, 2020 to December 31, 2020. The application included the duly accomplished

[14] Exhibit "P-10," Docket, pp. 807 to 811.
[15] *Id.*
[16] Par. 25, *Petition for Review*, p. 11.
[17] Par. 26, *Petition for Review*, p. 12.
[18] Par. 27, *Petition for Review*, p. 12.
[19] Exhibit "P-17," BIR Records (Exhibit "R-5"), p. 137.
[20] Exhibit "P-17-a," BIR Records (Exhibit "R-5"), p. 134.
[21] Exhibit "P-17-b," BIR Records (Exhibit "R-5"), p. 131.
[22] Exhibit "P-17-c," BIR Records (Exhibit "R-5"), p. 128.
[23] Exhibit "P-16," Docket – Vol. 2, p. 840.

Revised Checklist of Mandatory Requirements on Claims for VAT Credit/Refund.[24]

Consequently, *Tax Verification Notice* No. TVN201800190823 dated March 31, 2022,[25] was issued to petitioner, authorizing Revenue Officers Fei Ann Marie S. Nazar, Kevin L. Fernandez, and Jonathan G. Simon, to verify the supporting documents and pertinent records relative to petitioner's claim for VAT refund for the period subject of the application.

Thereafter, on August 8, 2022, petitioner received the *VAT Refund Notice* dated June 7, 2022, denying in full its VAT refund application.[26]

PROCEEDINGS BEFORE THE COURT

The present *Petition for Review* was filed on September 7, 2022.[27]

On November 29, 2022, respondent filed his *Answer*,[28] interposing special and affirmative defenses.

On February 16, 2023, respondent transmitted to the Court the *BIR Records* of this case, consisting of 378 pages in one (1) folder.[29]

A Pre-Trial Conference was set and held on April 13, 2023.[30] Prior thereto, respondent filed his *Pre-Trial Brief* was filed on March 28, 2023,[31] while petitioner filed its *Pre-Trial Brief* on April 4, 2023.[32]

On May 15, 2023, the parties submitted their *Joint Stipulation of Facts and Issues*,[33] which the Court admitted and approved in the

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[24] Exhibit "R-2," BIR Records (Exhibit "R-5"), p. 140.
[25] Exhibit "R-1," BIR Records (Exhibit "R-5"), p. 145.
[26] Exhibit "P-1," Docket – Vol. 2, pp. 757 to 767; Exhibit "R-4," BIR Records (Exhibit "R-5"), pp. 357 to 367. Refer also to par. 5, *Petition for Review*, vis-à-vis par. 2, *Answer*, Docket – Vol. 1, pp. 8 and 326, respectively
[27] Docket – Vol. 1, pp. 6 to 42.
[28] Docket – Vol. 1, pp. 326 to 334.
[29] *Compliance* dated February 16, 2023, Docket – Vol. 1, pp. 346 to 348.
[30] Notice of Pre-Trial Conference dated December 16, 2022, Docket – Vol. 1, pp. 342 to 343; Minutes of the hearing held on, and Order dated, April 13, 2023, Docket – Vol. 1, pp. 394 to 396.
[31] Docket – Vol. 1, pp. 351 to 354.
[32] Docket – Vol. 1, pp. 366 to 392.
[33] Docket – Vol. 1, pp. 411 to 417.

Resolution dated May 22, 2023,[34] thereby terminating pre-trial. The Pre-Trial Order was subsequently issued on September 11, 2023.[35]

As trial ensued, the parties presented their respective testimonial and documentary evidence.

Petitioner offered the testimonies of the following individuals: (1) Ms. Regine G. Agcito,[36] petitioner's Accounting Manager; (2) Mr. Joseph P. Basquina,[37] petitioner's Senior Accounting Staff; (3) Mr. Marlon D. Dumail,[38] petitioner's Information and Communication Technology (ICT) Department Manager; and (4) Mr. Peter Raymond T. Santos,[39] the Court-commissioned Independent Certified Public Accountant (ICPA).[40]

The ICPA Report was submitted on October 10, 2023.[41]

On November 17, 2023, petitioner filed its *Formal Offer of Evidence*,[42] to which respondent filed his *Comment (Re: Formal Offer of Evidence)* on November 20, 2023.[43]

In the Resolution dated February 23, 2024,[44] the Court admitted petitioner's offered exhibits, except for Exhibit "P-5," due to petitioner's failure to present the original for comparison.

For his part, respondent offered the testimony of Revenue Officer Junelle Aira C. Salamanca.[45]

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34 Docket – Vol. 1, p. 420.
35 Docket – Vol. 2, pp. 544 to 551.
36 Exhibit "P-58," Docket – Vol. 1, pp. 435 to 449; Minutes of the hearing held on, and Order dated, September 5, 2023, Docket – Vol. 2, pp. 538 and 541 to 542, respectively.
37 Exhibit "P-59," Docket – Vol. 1, pp. 58 to 70; Minutes of the hearing held on, and Order dated, September 5, 2023, Docket – Vol. 2, pp. 538 and 541 to 542, respectively.
38 Exhibit "P-60," Docket – Vol. 1, pp. 71 to 79; Minutes of the hearing held on, and Order dated, October 18, 2023, Docket – Vol. 2, pp. 711 to 714.
39 Exhibit "P-62," Docket – Vol. 2, pp. 623 to 640; Minutes of the hearing held on, and Order dated, October 18, 2023, Docket – Vol. 2, pp. 711 to 714.
40 *Oath of Commission* dated September 5, 2023, Docket – Vol. 2, p. 540; Minutes of the hearing held on, and Order dated September 5, 2023, Docket – Vol. 2, pp. 538 and 541 to 542, respectively.
41 Exhibit "P-61," Docket – Vol. 2 pp. 555 to 622.
42 Docket – Vol. 2, pp. 725 to 755.
43 Docket – Vol. 2, pp. 955 to 957.
44 Docket – Vol. 2, pp. 962 to 963.
45 Exhibit "R-6," Docket – Vol. 1, pp. 360 to 365; Minutes of the hearing held on, and Order dated, February 28, 2024, Docket – Vol. 2, pp. 969 and 971 to 972, respectively.

Respondent's *Formal Offer of Evidence* was filed on February 28, 2024,[46] to which petitioner filed its *Comment (to Respondent's Formal Offer of Evidence)* on March 11, 2024.[47]

In the Resolution dated June 4, 2024,[48] the Court admitted all of respondent's offered exhibits.

Respondent filed his *Memorandum* on July 16, 2024,[49] while petitioner filed its *Memorandum* on July 18, 2024.[50]

On August 2, 2024, the Court submitted the present case for resolution.[51]

Hence, this Decision.

ISSUE

As agreed by the parties, the issue to be resolved by the Court is whether petitioner is entitled to the refund of excess and unutilized input VAT for taxable year 2020 in the amount of Nine Million Four Hundred Eighty-Nine Thousand Three Hundred Twenty-Five and 11/100 Pesos (Php9,489,325.11).[52]

ARGUMENTS OF THE PARTIES

Petitioner's arguments

Petitioner argues that it complied with all the requisites of a valid refund, asserting that it submitted all the documents required to support its application for VAT refund. It likewise contends that it issued valid invoices for its zero-rated transactions pursuant to a duly issued Permit to Use Computerized Accounting System (PTUCAS) and in accordance with Sections 237 and 238 of the Tax Code.

Petitioner further posits that the modification of the header of its system generated sales invoice from "Charge Sales Invoice" to "Charge Sales Invoice/Commercial Invoice" does not constitute a system

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46 Docket – Vol. 2, pp. 964 to 967.
47 Docket – Vol. 2, pp. 973 to 977.
48 Docket – Vol. 2, pp. 983 to 984.
49 Docket – Vol. 2, pp. 985 to 992.
50 Docket – Vol. 2, pp. 994 to 1030.
51 Minute Resolution dated August 2, 2024, Docket – Vol. 2, p. 1033.
52 Issues to be Resolved, *Joint Stipulation of Facts and Issues*, Docket Vol. 1 – p.412.

enhancement that resulted in the change in the system's release and/or version number. Thus, petitioner maintains that there is no legal basis for the alleged automatic revocation of its PTUCAS. Finally, petitioner alleges that it was able to substantiate its entitlement to a tax refund in the amount of Php9,489,325.11.

Respondent's counter-arguments

Respondent, on the other hand, contends that the petition must be dismissed for petitioner's alleged failure to substantiate its administrative claim for refund. He further asserts that petitioner is not entitled to the claimed refund in the amount of Php9,489,325.11.

RULING OF THE COURT

The present *Petition for Review* is partly meritorious.

The requisites for the grant of input VAT refund or issuance of tax credit certificate under the law.

Section 112(a) and (c) of the National Internal Revenue Code of 1997, as amended by Republic Act (RA) No. 10963 (Tax Code), governs the input VAT refund mechanism for zero-rated or effectively zero-rated sales. The provisions state:

> SEC. 112. Refunds or Tax Credits of Input Tax. —
>
> (A) Zero-Rated or Effectively Zero-Rated Sales. — Any VAT-registered person, whose sales are zero-rated or effectively zero-rated may, within two (2) years after the close of the taxable quarter when the sales were made, apply for the issuance of a tax credit certificate or refund of creditable input tax due or paid attributable to such sales, except transitional input tax, to the extent that such input tax has not been applied against output tax: Provided, however, That in the case of zero-rated sales under Section 106(A)(2)(a)(1), (2) and (b) and Section 108(B)(1) and (2), the acceptable foreign currency exchange proceeds thereof had been duly accounted for in accordance with the rules and regulations of the *Bangko Sentral ng Pilipinas* (BSP): Provided, further, That where the taxpayer is engaged in zero-rated or effectively zero-rated sale and also in taxable or exempt sale of goods or properties or services, and the amount of creditable input tax due or paid cannot be directly and entirely attributed to any one of the transactions, it shall be allocated proportionately on the basis of the volume of sales: Provided, finally, That for a person making sales that are zero-rated under Section

> 108(B)(6), the input taxes shall be allocated ratably between his zero-rated and non-zero-rated sales.
>
> xxx xxx xxx
>
> (C) Period within which Refund of Input Taxes shall be Made. — In proper cases, the Commissioner shall grant a refund for creditable input taxes within ninety (90) days from the date of submission of the official receipts or invoices and other documents in support of the application filed in accordance with Subsections (A) and (B) hereof: Provided, That should the Commissioner find that the grant of refund is not proper, the Commissioner must state in writing the legal and factual basis for the denial.
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> In case of full or partial denial of the claim for tax refund, the taxpayer affected may, within thirty (30) days from the receipt of the decision denying the claim, appeal the decision with the Court of Tax Appeals: Provided, however, That failure on the part of any official, agent, or employee of the BIR to act on the application within the ninety (90)-day period shall be punishable under Section 269 of this Code.

In relation thereto, the Supreme Court has laid down the following requisites that the taxpayer must comply with to successfully obtain a refund or tax credit of the input VAT:[53]

1. the administrative claim is filed with the BIR within two (2) years after the close of the taxable quarter when the sales were made;

2. in case of full or partial denial of the refund claim, the judicial claim shall be filed with this Court within thirty (30) days from receipt of the decision;

3. the taxpayer is a VAT-registered person;

4. the taxpayer is engaged in zero-rated or effectively zero-rated sales;

5. for zero-rated sales under Section 106(A)(2)(a)(1), (2) and (b) and Section 108(B)(1) and (2),[54] the acceptable foreign currency exchange proceeds have been duly accounted for in accordance with the *Bangko Sentral ng Pilipinas* (BSP) rules and regulations;

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[53] *Intel Technology Philippines, Inc. v. Commissioner of Internal Revenue*, G.R. No. 166732, April 27, 2007; *San Roque Power Corporation v. Commissioner of Internal Revenue*, G.R. No. 180345, November 25, 2009; and *AT&T Communications Services Philippines, Inc. v. Commissioner of Internal Revenue*, G.R. No. 182364, August 3, 2010.

[54] Under RA No. 10963, Section 106(A)(2)(a)(2) was renumbered to Section 106(A)(2)(a)(3) while Section 106(A)(2)(b) was deleted. However, there was no corresponding amendment to the subsections cited in Section 112(A) of the NIRC of 1997, as amended.

6. the input taxes are not transitional input taxes;

7. the input taxes are due or paid;

8. the input taxes claimed are attributable to zero-rated or effectively zero-rated sales. However, where there are both zero-rated or effectively zero-rated sales and taxable or exempt sales, and the input taxes cannot be directly and entirely attributable to any of these sales, the input taxes shall be proportionately allocated on the basis of sales volume; and

9. the input taxes have not been applied against output taxes during and in the succeeding quarters.

In addition to these nine requisites, the Supreme Court has consistently held that, in claims for VAT refund/credit, applicants must satisfy the substantiation and invoicing requirements under the NIRC and other implementing rules and regulations.[55]

The rationale for strict compliance was explained in *Western Mindanao Power Corporation v. Commissioner of Internal Revenue*,[56] where the Supreme Court ruled:

> Being a derogation of the sovereign authority, a statute granting tax exemption is strictly construed against the person or entity claiming the exemption. When based on such statute, a claim for tax refund partakes of the nature of an exemption. Hence, the same rule of strict interpretation against the taxpayer-claimant applies to the claim.

Similarly, in *Team Energy Corporation v. Commissioner of Internal Revenue*,[57] the Supreme Court emphasized that:

> Our VAT system is invoice-based, i.e. taxation relies on sales invoices or official receipts. A VAT-registered entity is liable to VAT, or the output tax at the rate of 0% or 10% (now 12%) on the gross selling price of goods or gross receipts realized from the sale of services. Sections 106(D) and 108(C) of the Tax Code expressly provide that VAT is computed at 1/11 of the total amount indicated in the invoice for sale of goods or official receipt for sale of services. This tax shall also be recognized as input tax credit to the purchaser of the goods or services.

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[55] *Team Energy Corporation v. Commissioner of Internal Revenue, et seq.*, G.R. Nos. 197663 and 197770, March 14, 2018.
[56] G.R. No. 181136, June 13, 2012.
[57] *Supra* note 63.

> **Strict compliance with substantiation and invoicing requirements is necessary considering VAT's nature and VAT system's tax credit method, where tax payments are based on output and input taxes and where the seller's output tax becomes the buyer's input tax that is available as tax credit or refund in the same transaction.** It ensures the proper collection of taxes at all stages of distribution, facilitates computation of tax credits, and provides accurate audit trail or evidence for BIR monitoring purposes. (Emphasis supplied)

Based on the foregoing, it is imperative that, aside from proving compliance with the nine (9) requisites laid down by the Supreme Court, the taxpayer must likewise establish strict compliance with invoicing and substantiation requirements mandated under the Tax Code and relevant Bureau of Internal Revenue (BIR) regulations.

Petitioner's administrative and judicial claims were timely filed.

Petitioner was able to establish that both its administrative claim and judicial claim were filed within the periods prescribed under Section 112 of the Tax Code. Section 112(A) of the Tax Code requires that the administrative claim for input VAT refund be filed with the BIR within two (2) years from the close of the taxable quarter when the zero-rated or effectively zero-rated sales were made.

In this case, petitioner seeks a refund of input VAT covering the 1st to 4th quarters of TY 2020. Accordingly, the last day for filing the administrative claim for each taxable quarter is as follows:

Period Covered (2020)	Close of Taxable Quarter	Last Day to File Administrative Claim
1st Quarter	March 31, 2020	March 31, 2022
2nd Quarter	June 30, 2020	June 30, 2022
3rd Quarter	September 30, 2020	September 30, 2022
4th Quarter	December 31, 2020	December 31, 2022

Records show that petitioner filed its administrative claim for input VAT refund for the 1st to 4th quarters of TY 2020 on March 31, 2022.[58] Thus, the administrative claim was filed well within the two-year prescriptive period.

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[58] Exhibit "P-16," Docket – Vol. 2, p. 840.

As to the judicial claim, Section 112(C) of the Tax Code provides that the taxpayer may appeal the decision of the CIR denying the claim to the CTA within thirty (30) days from receipt of the decision. Here, petitioner received respondent's *VAT Refund Notice* dated June 7, 2022,[59] denying its administrative claim for refund, on August 8, 2022.[60]

Consequently, petitioner had until September 7, 2022 within which to file its judicial claim. The records clearly show that petitioner filed the present *Petition on Review* on September 7, 2022.[61] Therefore, the same was timely filed.

In view of the foregoing, the Court finds that petitioner duly complied with the requisite periods for the timely filing of both its administrative and judicial claims for input VAT refund.

Petitioner is a VAT-registered entity.

In the present case, petitioner was able to sufficiently establish that it is a VAT-registered entity. A perusal of the records shows that petitioner is a VAT-registered taxpayer under TIN 005-210-007-000, as evidenced in its BIR *Certificate of Registration* No. OCN 2RC0001113613.[62]

Petitioner had established that it was engaged in zero-rated sales during the taxable year 2020, but only to the extent of Php363,592,599.98.

Petitioner was able to establish that it was engaged in zero-rated sales during TY 2020, but only to the extent Php363,592,599.98.

Section 106(A)(2)(a)(1) of the Tax Code expressly subjects export sales to the zero percent (0%) VAT rate, thus:

SEC. 106.Value-added Tax on Sale of Goods or Properties. —

[59] Exhibit "P-1," Docket – Vol. 2, pp. 757 to 767; Exhibit "R-4," BIR Records (Exhibit "R-5"), pp. 357 to 367.
[60] Par. 5, *Petition for Review*, vis-à-vis par. 2, *Answer*, Docket – Vol. 1, pp. 8 and 326, respectively.
[61] Docket – Vol. 1, pp. 6 to 42.
[62] Exhibit "P-3," Docket – Vol. 2, p. 791.

(A) Rate and Base of Tax. — xxx

(2) The following sales by VAT-registered persons shall be subject to zero percent (0%) rate:

(a) Export Sales. — The term 'export sales' means:

(1) The sale and actual shipment of goods from the Philippines to a foreign country, irrespective of any shipping arrangement that may be agreed upon which may influence or determine the transfer of ownership of the goods so exported and paid for in acceptable foreign currency or its equivalent in goods or services, and accounted for in accordance with the rules and regulations of the Bangko Sentral ng Pilipinas (BSP).

It is clear from the foregoing that, for export sales to qualify for VAT zero-rating, the taxpayer must prove: (1) sale and actual shipment of goods to a foreign country; and (2) payment in acceptable foreign currency duly accounted for under the BSP rules and regulations.

In the present case, it bears reiterating that petitioner alleged that it was established primarily to engage in the development and operation of agricultural lands, particularly for the cultivation of Cavendish bananas for both domestic distribution and export.[63] Petitioner likewise claimed that the Cavendish bananas were heavily exported to the Japanese market.[64]

The Court observes that petitioner was able to sufficiently prove that it is engaged in export sales. Petitioner is a Board of Investments (BOI)-registered entity, as evidenced by *Certificate of Registration* No. 2019-263 dated December 2, 2019.[65] Under the terms and conditions of said registration, petitioner is required to export at least seventy percent (70%) of its total production.[66] Thus, petitioner was able to establish that it is primarily engaged in export sales.

Petitioner's Amended *Quarterly VAT Returns* (BIR Form No. 2550-Q) for the TY 2020[67] shows that it declared total sales in the

[63] Par. 10, *Petition for Review*, Docket – Vol. 1, pp. 8 to 9.
[64] *Id.*
[65] Exhibit "P-6," Docket – Vol. 2, p. 794.
[66] *Id.*, p. 795.
[67] Exhibits "P-17" to "P-17-c," BIR Records (Exhibit "R-5"), pp. 137, 134 131, and 128, respectively.

amount of Php402,763,613.21, which includes zero-rated sales in the amount of ₱392,727,264.42, broken down as follows:

	VAT-able sales	**Zero-rated Sales**	**Exempt Sales**	**Total Sales**
1st Quarter TY 2020	Php1,567,961.42	Php106,439,983.65	Php197.55	Php108,008,142.62
2nd Quarter TY 2020	3,353,123.25	127,281,396.72	518.78	Php130,635,038.75
3rd Quarter TY 2020	1,812,877.42	79,398,429.96	452.81	Php81,211,760.19
4th Quarter TY 2020	3,300,734.83	79,607,454.09	482.73	Php82,908,671.65
Total	Php10,034,696.92	**Php392,727,264.42**	Php1,651.87	Php402,763,613.21

In the *VAT Refund Notice* dated June 7, 2022,[68] respondent denied in full petitioner's claim for input VAT refund amounting to Php9,489,325.11 for TY 2020 for the following reasons:

1. disallowances of input VAT totaling Php608,433.65 due to alleged non-compliance with invoicing requirements under Sections 110 and 113 of the Tax Code, unsupported local claim, big-ticket disallowances, unsupported amortization of deferred input VAT from importations, and attribution to exempt or zero-rated sales; and

2. petitioner's PTUCAS authorized the issuance of **CHARGE INVOICES**, however the documents submitted by petitioner in support of its claim for refund were **CHARGE SALES INVOICES/COMMERCIAL SALES INVOICES**. Thus, petitioner made an enhancement/modification on the face of the invoices and said invoices were not covered by petitioner's PTUCAS. Consequently, the invoices have no probative value and petitioner was not able to establish its zero-rated sales amounting to Php392,727,264.42.

Respondent maintains that the application for VAT refund was denied due to petitioner's non-compliance with Section 238 of the Tax Code. Respondent further asserts that petitioner's issuance of "Charge Sales Invoice/Commercial Sales Invoice" was not authorized in petitioner's PTUCAS and the modification constituted an

[68] Exhibit "P-1," Docket – Vol. 2, pp. 757 to 767; Exhibit "R-4," BIR Records (Exhibit "R-5"), pp. 357 to 367.

enhancement which needed a new CAS permit pursuant to Section V(P) of Revenue Memorandum Order No. 29-2002.

On the other hand, petitioner argues that the modification of the header of the system generated sales invoice from "Charge Sales Invoice" to "Charge Sales Invoice/Commercial Invoice" did not result in a change in the system's release and/or version number of petitioner's CAS. Thus, petitioner posits that it issued valid invoices for its zero-rated transactions pursuant to a valid PTUCAS in compliance with Sections 237 and 238 of the Tax Code.

Petitioner's arguments are impressed with merit.

Section V(P) of RMO No. 29-2002 requires a taxpayer to apply for a new permit to use CAS whenever an enhancement results in a change in the system's release and/or version number. The same provision further states that if a taxpayer adopts an enhanced system without the requisite BIR approval, the previously issued permit shall be deemed automatically revoked from the time such enhancement is adopted.

Section II(AA) of RMO No. 29-2002 defines a system enhancement as any change or modification in the system software or architecture components of a computerized accounting system that will add value or further improve the system.

In the present case, petitioner's PTUCAS with Reference No. No. 1810_0112_PTU_CAS_000351 issued on October 10, 2018[69] indicates the following system description:

Main Software/Core System		
Software Name	:	SAP Business One
Version Number	:	Version 9.2 PL 07
Release Number and/or Date:		2017

Although petitioner modified the header of its invoice from "Charge Sales Invoice" to "Charge Sales Invoice/Commercial Invoice," a perusal of petitioner's *Computerized Accounting System (CAS) No Enhancement Narrative Report*[70] categorically shows that its software name, version number, and release date remained unchanged. Accordingly, the alteration did not constitute a "system enhancement"

[69] Exhibit "P-10," Docket – Vol. 2, pp. 807 to 811.
[70] Exhibit "P-56," Docket – Vol. 2, pp. 945 to 947.

within the contemplation of RMO No. 29-2002, and petitioner was not required to secure a new PTUCAS.

Moreover, the Court finds that petitioner issued valid invoices for its zero-rated transactions pursuant to a subsisting PTUCAS and in compliance with Sections 237 and 238 of the Tax Code and relevant BIR Regulations.

Section 2 of Revenue Regulations (RR) No. 18-2012 defines principal receipt/invoice as a written account evidencing the sale of goods and/or services issued to customers in an ordinary course of business. Furthermore, the following were expressly enumerated as principal receipts/invoices: (1) VAT Sales Invoice, (2) VAT Official Receipt, (3) Non-VAT Sales Invoice, and (4) Non-VAT Official Receipts.

Conversely, Section 3 of the same regulation defines supplementary receipts/invoices, which include commercial invoices, as written account evidencing that a transaction has been made between the seller and the buyer of goods and/or services, forming part of the books of accounts of a business taxpayer for recording, monitoring, and control purposes.

The distinction between a principal receipt/invoice and a supplementary receipt/invoice is pivotal in determining their probative value for VAT purposes. Section 3 of RR No. 18-2012 specifically states that supplementary receipts/invoices are not valid proof to support the claim of Input Taxes by buyers of goods and/or services.

It bears emphasis that Section 2.2 of RR No. 18-2012 expressly includes a Charge Sales Invoice within the definition of a VAT Sales Invoice. Section 113 (B) of the Tax Code further prescribes the following information to be indicated in the VAT invoice or VAT official receipt:

> **SEC. 113. Invoicing and Accounting Requirements for VAT-registered Persons. –**
>
> (B) Information Contained in the VAT invoice or VAT Official Receipt. – The following information shall be indicated in the VAT invoice or VAT official receipt:
>
> (1) A statement that the seller is a VAT-registered person, followed by his Taxpayer's Identification Number (TIN);

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(2) The total amount which the purchaser pays or is obligated to pay to the seller with the indication that such amount includes the value-added tax: Provided, That:

(a) The amount of the tax shall be shown as a separate item in the invoice;

(b) If the sale is exempt from value-added tax, the term 'VAT-exempt sale' shall be written or printed prominently on the invoice or receipt;

(c) If the sale is subject to zero percent (0%) value-added tax, the term 'zero-rated sale' shall be written or printed prominently on the invoice or receipt;

(d) If the sale involves goods, properties or services some of which are subject to and some of which are VAT zero-rated or VAT exempt, the invoice or receipt shall clearly indicate the break-down of the sale price between its taxable, exempt and zero-rated components, and the calculation of the value-added tax on each portion of the sale shall be shown on the invoice or receipt: Provided, That the seller may issue separate invoices or receipts for the taxable, exempt, and zero-rated components of the sale.

(3) The date of transaction, quantity, unit cost and description of the goods or properties or nature of the service; and

(4) In the case of sales in the amount of One thousand pesos (P1,000) or more where the sale or transfer is made to a VAT-registered person, the name, address and Taxpayer Identification Number of the purchaser, customer or client.

Here, petitioner issued invoices with the header "Charge Sales Invoice/Commercial Sales Invoice" to its customers. In view of Section 2.2 of RR No. 18-2012, the Court finds that the invoices issued by petitioner are VAT sales invoices. A review of the *Charge Sales Invoices/Commercial Sales Invoices*[71] issued shows that they contain the information required under Section 113(B) of the Tax Code required under Section 113(B) and that their serial numbers[72] fall within the authorized range indicated in petitioner's PTUCAS.[73]

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[71] Exhibit "P-30-13-1 to P-30-18-1," USB (Exhibit "P-61-b").
[72] Refer to Exhibit "P-61-3," USB (Exhibit "P-61-b").
[73] Exhibit "P-10," Docket – Vol. 2, pp. 807 to 811.

Accordingly, the Court holds that petitioner's declared zero-rated sales of Php392,727,264.42 for TY2020 in its *Quarterly VAT Returns* are duly supported by VAT zero-rated sales invoices.

In *Intel Technology Philippines, Inc. v. Commissioner of Internal Revenue*,[74] the Supreme Court held that export sales may be substantiated by documentary evidence such as summaries of export sales, sales invoices, official receipts, airway bills, and export declarations, which collectively prove the sale and actual shipment of goods from the Philippines to a foreign country.

While petitioner sufficiently established zero-rated sales for TY 2020 amounting to Php392,727,264.42, the records disclose that export sales totaling Php15,008,144.23 are not supported by any export declaration, bill of lading, or airway bill. These amounts must therefore be excluded from zero-rating for failure to substantiate actual shipment.

Exhibit No.	Invoice No.	Customer Name	Sales in foreign currency (US$)	Sales in Philippine Peso (Php)
"P-30-13-285"	310000683	MARSMAN DRYSDALE PTE, LIMITED	135.54	6,871.88
"P-30-13-469"	310001264	MARSMAN DRYSDALE PTE, LIMITED	2,174.40	105,219.22
"P-30-13-526"	310001414	MARSMAN DRYSDALE PTE, LIMITED	55,507.50	2,666,358.27
"P-30-13-526"	310001414	MARSMAN DRYSDALE PTE, LIMITED	8,433.00	405,087.59
"P-30-16-1"	310000666	SARAP FRUITS AGRIVENTURE INC.	12,343.50	627,938.53
"P-30-16-2"	310000676	SARAP FRUITS AGRIVENTURE INC.	3,302.00	167,091.11
"P-30-16-3"	310000781	SARAP FRUITS AGRIVENTURE INC.	5,187.00	262,991.27
"P-30-16-4"	310000805	SARAP FRUITS AGRIVENTURE INC.	641.00	32,739.72
"P-30-16-5"	310000837	SARAP FRUITS AGRIVENTURE INC.	9,715.00	493,113.97
"P-30-16-6"	310000857	SARAP FRUITS AGRIVENTURE INC.	8,643.00	437,698.81
"P-30-16-7"	310000888	SARAP FRUITS AGRIVENTURE INC.	18,833.70	955,829.10
"P-30-16-8"	310000900	SARAP FRUITS AGRIVENTURE INC.	19,885.60	1,003,109.21
"P-30-16-9"	310000916	SARAP FRUITS AGRIVENTURE INC.	19,309.40	974,313.71
"P-30-16-10"	310000933	SARAP FRUITS AGRIVENTURE INC.	20,749.90	1,049,695.94
"P-30-16-11"	310000946	SARAP FRUITS AGRIVENTURE INC.	14,056.60	711,010.95

[74] G.R. No. 166732, April 27, 2007.

"P-30-16-12"	310000962	SARAP FRUITS AGRIVENTURE INC.	13,882.40	702,241.20
"P-30-16-13"	310000980	SARAP FRUITS AGRIVENTURE INC.	7,772.00	387,853.89
"P-30-16-14"	310000991	SARAP FRUITS AGRIVENTURE INC.	7,772.00	388,094.82
"P-30-16-15"	310001005	SARAP FRUITS AGRIVENTURE INC.	7,370.00	369,620.24
"P-30-16-16"	310001066	SARAP FRUITS AGRIVENTURE INC.	5,842.40	288,322.44
"P-30-17-1"	310000739	HELON INTERNATIONAL TRADING CORPORATION	10,010.00	508,337.83
"P-30-17-2"	310000768	HELON INTERNATIONAL TRADING CORPORATION	11,550.00	583,159.50
"P-30-17-3"	310000769	HELON INTERNATIONAL TRADING CORPORATION	470.00	23,860.49
"P-30-17-4"	310000786	HELON INTERNATIONAL TRADING CORPORATION	1,422.00	72,432.41
"P-30-17-5"	310000808	HELON INTERNATIONAL TRADING CORPORATION	1,278.00	64,700.03
"P-30-17-6"	310000809	HELON INTERNATIONAL TRADING CORPORATION	16,792.00	858,373.46
"P-30-17-7"	310000810	HELON INTERNATIONAL TRADING CORPORATION	980.00	50,196.58
"P-30-17-8"	310000835	HELON INTERNATIONAL TRADING CORPORATION	1,074.00	54,671.97
"P-30-17-9"	310000902	HELON INTERNATIONAL TRADING CORPORATION	1,256.00	63,752.05
"P-30-17-10"	310000904	HELON INTERNATIONAL TRADING CORPORATION	2,212.00	112,020.10
"P-30-17-11"	310000905	HELON INTERNATIONAL TRADING CORPORATION	2,064.00	104,750.06
"P-30-17-12"	310000903	HELON INTERNATIONAL TRADING CORPORATION	2,514.00	126,816.22
"P-30-17-13"	310000954	HELON INTERNATIONAL TRADING CORPORATION	1,088.00	54,883.07
"P-30-17-14"	310000955	HELON INTERNATIONAL TRADING CORPORATION	714.00	36,027.01
"P-30-17-15"	310000956	HELON INTERNATIONAL TRADING CORPORATION	878.00	44,416.27
"P-30-17-16"	310000957	HELON INTERNATIONAL TRADING CORPORATION	690.00	34,901.58
"P-30-17-17"	310001020	HELON INTERNATIONAL TRADING CORPORATION	712.00	36,016.52
"P-30-17-18"	310001178	HELON INTERNATIONAL TRADING CORPORATION	143.00	6,947.94
"P-30-17-19"	310001179	HELON INTERNATIONAL TRADING CORPORATION	191.00	9,273.24
"P-30-17-20"	310001180	HELON INTERNATIONAL TRADING CORPORATION	230.00	11,134.30
"P-30-17-21"	310001181	HELON INTERNATIONAL TRADING CORPORATION	301.00	14,590.07
"P-30-17-22"	310001246	HELON INTERNATIONAL TRADING CORPORATION	316.00	15,314.31
"P-30-17-23"	310001247	HELON INTERNATIONAL TRADING CORPORATION	342.00	16,521.34
"P-30-17-24"	310001313	HELON INTERNATIONAL TRADING CORPORATION	145.00	7,017.42
"P-30-17-25"	310001314	HELON INTERNATIONAL TRADING CORPORATION	431.00	20,805.23

"P-30-17-26"	310001315	HELON INTERNATIONAL TRADING CORPORATION	196.00	9,467.19
"P-30-17-27"	310001316	HELON INTERNATIONAL TRADING CORPORATION	190.00	9,167.50
"P-30-17-28"	310001327	HELON INTERNATIONAL TRADING CORPORATION	132.00	6,347.22
"P-30-17-29"	310001347	HELON INTERNATIONAL TRADING CORPORATION	123.00	5,908.06
"P-30-17-30"	310001348	HELON INTERNATIONAL TRADING CORPORATION	98.00	4,711.06
"P-30-18-1"	310000738	GOODFARMER FRESH FRUIT TRADING CORP.	127.20	6,422.33
		Total	**300,225.14**	**15,008,144.23**

Therefore, for petitioner's failure to submit any export declaration or bill of lading/airway bill to prove the actual shipment of the goods, the amount of Php15,008,144.23 must be deducted from its total zero-rated sales for TY 2020.

It bears reiterating that, apart from proving the actual shipment of goods to a foreign country, the taxpayer must likewise establish that the zero-rated sales were paid in acceptable foreign currency or its equivalent in goods or services, and that the proceeds were duly accounted for in accordance with the rules and regulations of the Bangko Sentral ng Pilipinas (BSP).

The Supreme Court, in *Intel Technology Philippines, Inc. v. Commissioner of Internal Revenue*,[75] likewise stressed that the certification of inward remittances attest to the fact of payment in acceptable foreign currency or its equivalent in goods or services, and accounted for in accordance with the rules and regulations of the BSP.

In this case, petitioner presented the *Certificates of Inward Remittances* issued by Metrobank,[76] Security Bank,[77] and Philippine National Bank,[78] together with Export Proceeds (MDPL) schedules,[79] purportedly reflecting the foreign currency remittances of its clients.

However, a comparison of the amounts reflected in the *Schedule of Zero-Rated Sale of Goods*[80] and the inward remittances per bank certifications reveals a discrepancy. While zero-rated sales of Php377,719,120.19 were properly substantiated, the amount of Php14,126,520.21 cannot be traced to any inward remittance based on

[75] G.R. No. 166732, April 27, 2007.
[76] Exhibit "P-31," BIR Records (Exhibit "R-5"), pp. 223 to 224.
[77] Exhibit "P-32," BIR Records (Exhibit "R-5"), pp. 225 to 226.
[78] Exhibit "P-33," BIR Records (Exhibit "R-5"), pp. 222.
[79] BIR Records (Exhibit "R-5"), pp. 210 to 221.
[80] Exhibit "P-25," Docket Vol. 2 – pp. 906 to 917.

the bank certifications. Consequently, said amount must likewise be deducted from petitioner's substantiated zero-rated sales.

Exhibit No.	Invoice No.	Customer Name	Sales in foreign currency (US$)	Sales in Philippine Peso (Php)	Date of remittance	Accredited Bank
Sales amount do not match with the amounts per Certificates of inward remittance						
"P-30-13-207"	310000752	MARSMAN DRYSDALE PTE, LIMITED	11,858.00	601,995.09	03.12.2020	MBTC
"P-30-13-31"	310000756	MARSMAN DRYSDALE PTE, LIMITED	21,737.60	1,103,552.73	03.12.2020	MBTC
"P-30-13-32"	310000757	MARSMAN DRYSDALE PTE, LIMITED	70,351.89	3,588,931.33	03.12.2020	MBTC
"P-30-13-325"	310000760	MARSMAN DRYSDALE PTE, LIMITED	1,653.45	84,403.66	03.12.2020	MBTC
"P-30-13-33"	310000761	MARSMAN DRYSDALE PTE, LIMITED	3,783.50	192,720.14	03.12.2020	MBTC
"P-30-13-326"	310000763	MARSMAN DRYSDALE PTE, LIMITED	11,711.99	596,573.63	03.12.2020	MBTC
"P-30-13-34"	310000764	MARSMAN DRYSDALE PTE, LIMITED	9,582.10	488,083.43	03.12.2020	MBTC
"P-30-13-323"	310000758	MARSMAN DRYSDALE PTE, LIMITED	7,908.08	401,469.50	03.19.2020	MBTC
"P-30-13-509"	310000767	MARSMAN DRYSDALE PTE, LIMITED	11,670.00	594,434.79	03.19.2020	MBTC
"P-30-13-527"	310000766	MARSMAN DRYSDALE PTE, LIMITED	13,244.00	674,609.63	03.19.2020	MBTC
		Subtotal	***163,500.61***	***8,326,773.93***		
No remittance from these customers were included in the Certificates of inward remittance						
"P-30-14-1"	310000672	FELIZA FRESH FRUIT CORP.	15,400.00	779,286.20	03.23.2020	MBTC
"P-30-14-2"	310000682	FELIZA FRESH FRUIT CORP.	15,092.00	766,069.92	03.23.2020	MBTC
"P-30-14-3"	310000712	FELIZA FRESH FRUIT CORP.	2,156.00	109,749.02	03.23.2020	MBTC
"P-30-14-4"	310000792	FELIZA FRESH FRUIT CORP.	14,784.00	751,914.24	03.23.2020	MBTC
"P-30-14-8"	350000004	FELIZA FRESH FRUIT CORP.	(2,002.00)	(101,909.81)	03.23.2020	MBTC
"P-30-14-5"	310000836	FELIZA FRESH FRUIT CORP.	1,078.00	55,025.43	04.24.2020	MBTC
"P-30-14-6"	310000883	FELIZA FRESH FRUIT CORP.	23,100.00	1,172,348.10	05.08.2020	MBTC
"P-30-14-7"	310000901	FELIZA FRESH FRUIT CORP.	2,156.00	109,069.88	05.08.2020	MBTC
"P-30-15-1"	310001266	ZHEJIANG OHENG IMPORT & EXPORT CO., LTD	7,700.00	371,424.90	11.27.2020	MBTC
"P-30-15-2"	310001278	ZHEJIANG OHENG IMPORT & EXPORT CO., LTD	7,700.00	371,448.00	11.27.2020	MBTC
"P-30-15-3"	310001281	ZHEJIANG OHENG IMPORT & EXPORT CO., LTD	19,404.00	936,805.72	11.27.2020	MBTC
"P-30-15-4"	310001291	ZHEJIANG OHENG IMPORT & EXPORT CO., LTD	6,468.00	311,705.86	11.27.2020	MBTC
"P-30-15-5"	310001303	ZHEJIANG OHENG IMPORT & EXPORT CO., LTD	12,320.00	592,616.64	12.03.2020	MBTC
"P-30-15-7"	310001323	ZHEJIANG OHENG IMPORT & EXPORT CO., LTD	7,700.00	369,954.20	12.15.2020	MBTC
"P-30-15-6"	310001318	ZHEJIANG OHENG IMPORT & EXPORT CO., LTD	8,624.00	414,831.65		
"P-30-15-8"	310001402	ZHEJIANG OHENG IMPORT & EXPORT CO., LTD	1,078.00	51,782.81		

"P-30-15-9"	350000007	ZHEJIANG OHENG IMPORT & EXPORT CO., LTD	(1,271.60)	(61,082.58)		
"P-30-15-9"	350000007	ZHEJIANG OHENG IMPORT & EXPORT CO., LTD	(25,008.20)	(1,201,293.90)		
		Subtotal	***116,478.20***	***5,799,746.28***		
		Total	**279,978.81**	**14,126,520.21**		

Accordingly, petitioner's total zero-rated sales must be further reduced by Php14,126,520.11. Stated differently, petitioner was able to substantiate zero-rated sales in the amount of Php363,592,599.98, representing transactions that were actually shipped to a foreign country and duly paid in acceptable foreign currency, which payments were likewise accounted for in accordance with the rules and regulations of the BSP. The computation is summarized as follows:

Declared zero-rated sales		Php392,727,264.42
Less: Sales without export declaration or bill of lading/airway bill	Php15,008,144.23	
Sales not traced to bank certificate of inward remittance	14,126,520.21	
Properly substantiated zero-rated sales		**Php363,592,599.98**

The input taxes being claimed are not transitional input taxes.

The input taxes being claimed by petitioner for refund are not transitional input taxes. Section 111(A) of the Tax Code defines transitional input taxes as follows:

> SEC. 111. *Transitional/Presumptive Input Tax Credits.* –
>
> (A) *Transitional Input Tax Credits.* – A person who becomes liable to value-added tax or any person who elects to be a VAT-registered person shall, subject to the filing of any inventory according to the rules and regulations prescribed by the Secretary of Finance, upon recommendation of the Commissioner, be allowed input tax on his beginning inventory of goods, materials and supplies equivalent to two percent (2%) of the value of such inventory or the actual value-added tax paid on such goods, materials and supplies, whichever is higher, which shall be creditable against the output tax.

It is apparent that the transitional input tax credit operates to benefit newly VAT-registered persons, whether or not they previously paid taxes in the acquisition of their beginning inventory of goods, materials and supplies.[81] During that period of transition from non-VAT to VAT status, the transitional input tax credit serves to alleviate the impact of the VAT on the taxpayer.[82]

A review of the records shows that the input taxes being claimed for refund by petitioner are not transitional input taxes. Accordingly, the Court finds that the input taxes claimed are not transitional input taxes, and petitioner has therefore complied with the requisite that the input taxes subject of the claim must not be transitional in nature.

Petitioner was able to prove that input VAT was paid in the amount of Php8,499,043.10.

Section 110(A) of the Tax Code provides that input taxes may be credited against output tax when they are evidenced by a VAT invoice or official receipt issued in compliance with Section 113 of the Tax Code. Such input taxes must arise from: (1) the purchase of services on which VAT has been paid, (2) or from the purchase or importation of goods for sale, (3) for conversion into or intended to form part of a finished product for sale, (4) for use as supplies in the course of business, for use as materials supplied in the sale of services, (5) or for use in trade or business where depreciation or amortization is allowed under the Tax Code.

The same provision also allows the amortization of input tax on capital goods purchased or imported within a calendar month, where the aggregate acquisition cost exceeds one million pesos (Php1,000,000.00), exclusive of VAT, subject to the following rules:

1. The input tax shall be spread evenly over the month of acquisition and the fifty-nine (59) succeeding months. However, if the capital good has an estimated useful life of less than five (5) years, the input tax shall be amortized over such shorter period; and

2. The amortization of the input VAT shall only be allowed until December 31, 2021 after which taxpayers with unutilized input VAT on capital goods purchased or imported shall be allowed to apply the same as scheduled until fully utilized.

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[81] *Fort Bonifacio Development Corporation v. Commissioner of Internal Revenue,* G.R. Nos. 158885 and 170680, April 2, 2009.
[82] *Id.*

Section 4.110-8 of RR No. 16-2005 prescribes the substantiation requirements of input tax credits, as follows:

> SEC. 4.110-8. *Substantiation of Input Tax Credits.* –
>
> (a) Input taxes for the importation of goods or the domestic purchase of goods, properties or services is made in the course of trade or business, whether such input taxes shall be credited against zero-rated sale, non-zero-rated sales, or subjected to the 5% Final Withholding VAT, must be substantiated and supported by the following documents, and must be reported in the information returns required to be submitted to the Bureau:
>
> xxx xxx xxx
>
> (1) For the domestic purchase of goods and properties – invoice showing the information required under Secs. 113 and 237 of the Tax Code.
>
> xxx xxx xxx
>
> (4) For the purchase of services – official receipt showing the information required under Secs. 113 and 237 of the Tax Code.
>
> A cash register machine tape issued to a registered buyer shall constitute valid proof of substantiation of tax credit only if it shows the information required under Secs. 113 and 237 of the Tax Code.

Based on these provisions, a taxpayer may claim input tax credits only when the input taxes are duly evidenced by VAT invoices (for domestic purchases of goods) or official receipts (for domestic purchases of services) that fully comply with Sections 113(A) and (B), 237, and 238 of the Tax Code.

In this case, petitioner reported total input taxes amounting to Php10,693,488.56 in its amended Quarterly VAT Returns[83] for TY 2020. Out of this amount, petitioner seeks a refund of Php9,489,325.11,[84] as summarized below:

[83] Exhibits "P-17 to P-17-c," BIR Records (Exhibit "R-5"), pp. 128 to 137.
[84] Petitioner's claim per *Petition for Review* is ₱9,489,325.11 but the actual excess input VAT per QVAT returns amounts to Php9,489,324.93.

	1st Quarter[85] (2020)	**2nd Quarter[86] (2020)**	**3rd Quarter[87] (2020)**	**4th Quarter[88] (2020)**	**Total**
Input tax deferred on Capital Goods exceeding ₱1 Million from Previous Quarter	Php163,472.80	Php102,170.50	Php40,868.20	Php211,717.85	Php518,229.35
Input tax on Purchase of Capital Goods exceeding ₱1 Million	-	-	222,860.90	-	222,860.90
Less: Input tax on Purchase of Capital Goods exceeding ₱1 Million deferred for the succeeding period	102,170.50	40,868.20	211,717.85	200,574.80	555,331.35
Input tax amortized for the period	**Php61,302.30**	**Php61,302.30**	**Php52,011.25**	**Php11,143.05**	**Php185,758.90**
Current input taxes on:					
Purchase of Capital Goods not exceeding ₱1 Million	Php58,071.44	Php24,415.18	Php2,730.00	Php132,450.31	Php217,666.93
Domestic Purchases of Goods Other than Capital Goods	1,732,772.20	2,071,154.35	1,530,470.00	1,565,018.34	6,899,414.89
Domestic Purchases of Services	639,983.70	1,133,616.13	586,792.33	1,030,255.68	3,390,647.84
Total current input taxes	**Php2,430,827.34**	**Php3,229,185.66**	**Php2,119,992.33**	**Php2,727,724.33**	**Php10,507,729.66**
Total input taxes for the period	**Php2,492,129.64**	**Php3,290,487.96**	**Php2,172,003.58**	**Php2,738,867.38**	**Php10,693,488.56**
Less: Output Tax	188,155.37	402,374.79	217,545.29	396,088.18	1,204,163.63
Excess input VAT	**Php2,303,974.27**	**Php2,888,113.17**	**Php1,954,458.29**	**Php2,342,779.20**	**Php9,489,324.93**

Petitioner submitted *Schedules of Local Purchases with Input Tax*[89] and *Schedules of Importations*[90] for the four (4) quarters of TY 2020, together with the corresponding sales invoices and official receipts,[91] to substantiate the amount of input VAT reported in its amended Quarterly VAT Returns. The documents were examined by the Court-commissioned ICPA, Mr. Peter Raymond T. Santos.

Based on the ICPA's findings, input VAT in the amount of Php160,568.58 must be disallowed for failure to comply with the substantiation and invoicing requirements under the Tax Code, as follows:

Nature	**Exhibit No.[92]**	**Amount**
Input VAT on purchase of goods with no indicated year	"P-61-10"	Php1,232.14

[85] BIR Records (Exhibit "R-5"), p. 137.
[86] Exhibit "P-17-a," BIR Records (Exhibit "R-5"), p. 134.
[87] Exhibit "P-17-b," BIR Records (Exhibit "R-5"), p. 131.
[88] Exhibit "P-17-c," BIR Records (Exhibit "R-5"), p. 128.
[89] Exhibits "P-34" to "P-37," BIR Records (Exhibit "R-5"), pp. 8 to 29; Exhibit "P-61-2," USB (Exhibit "P-61-b").
[90] Exhibits "P-46" to "P-49," Docket – Vol. 2, pp. 932 to 935.
[91] Exhibits "P-38-1-1" to "P-38-14-2," USB (Exhibit "P-61-b").
[92] ICPA Report (Exhibit "P-61"), Docket –Vol. 2, p. 558, 610 to 618 and 620.

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Input VAT on purchase of goods and services not valid for claiming input tax	"P-61-11"	5,198.06
Input VAT on purchase of goods not within the validity of Authority to Print (ATP)	"P-61-12"	375.00
Input VAT on purchase of services with no supporting documents	"P-61-13"	3,022.95
Input VAT on purchase of goods with over-claimed input tax	"P-61-14"	400.51
Input VAT on purchase of goods not under the Company's name	"P-61-15"	4,763.11
Input VAT on purchase of goods and services with incorrect TIN	"P-61-16"	8,660.07
Input VAT on purchase of goods with no TIN indicated	"P-61-17"	24.11
Input VAT on purchase of goods with incomplete breakdown of VAT	"P-61-18"	15,118.36
Input VAT on purchase of services with no ATP	"P-61-20"	2,217.78
Unsupported local claims	Table D	119,556.49
	Total	**Php160,568.58**

The Court agrees with the findings of the ICPA. In addition, input VAT amounting to Php2,033,876.88 must likewise be disallowed, as further verification of the ICPA schedules and the documents submitted by petitioner reveals the following:

Exhibit No.	Supplier Name	Input VAT Amount	Reason for disallowance
Domestic purchases of services and goods other than capital goods			
"P-38-1-16"	Agway Chemicals Corporation	Php6,120.00	VAT invoice with unreadable details.
"P-38-1-17"	Agway Chemicals Corporation	12,846.43	VAT invoice with unreadable details.
"P-38-1-20"	Agway Chemicals Corporation	2,490.00	VAT invoice with unreadable details.
"P-38-1-21"	Bayer CropScience, Inc	6,912.00	VAT invoice does not show the BIR PTU/ATP details.
"P-38-1-22"	Bayer CropScience, Inc	7,776.00	VAT invoice does not show the BIR PTU/ATP details.
"P-38-2-3"	Bayer CropScience, Inc	6,660.00	VAT invoice does not show the BIR PTU/ATP details.
"P-38-2-9"	CV Solutions Inc	15,840.00	VAT invoice with countersigned alteration on date but the countersignature cannot be ascertained as pertaining to the authorized signatory thereof.
"P-38-2-46"	Elking Trade	21.43	VAT invoice with alteration on VAT amount but without countersignature of authorized signatory.
"P-38-3-30"	Agway Chemicals Corporation	25,692.86	VAT invoice with unreadable details.
"P-38-3-33"	Bayer Crop Science, Inc.	1,728.00	VAT invoice does not show the BIR PTU/ATP details.
"P-38-3-34"	Bayer Crop Science, Inc.	44,352.00	VAT invoice does not show the BIR PTU/ATP details.

"P-38-3-35"	Bayer Crop Science, Inc.	8,880.00	VAT invoice does not show the BIR PTU/ATP details.
"P-38-3-36"	Bayer Crop Science, Inc.	13,860.00	VAT invoice does not show the BIR PTU/ATP details.
"P-38-3-37"	Bayer Crop Science, Inc.	8,880.00	VAT invoice does not show the BIR PTU/ATP details.
"P-38-3-38"	Bayer Crop Science, Inc.	2,160.00	VAT invoice does not show the BIR PTU/ATP details.
"P-38-3-39"	Bayer Crop Science, Inc.	4,440.00	VAT invoice does not show the BIR PTU/ATP details.
"P-38-3-40"	Bayer Crop Science, Inc.	8,208.00	VAT invoice does not show the BIR PTU/ATP details.
"P-38-3-41"	Bayer Crop Science, Inc.	9,120.00	VAT invoice does not show the BIR PTU/ATP details.
"P-38-3-42"	Bayer Crop Science, Inc.	8,880.00	VAT invoice does not show the BIR PTU/ATP details.
"P-38-3-44"	Genuflect Corporation	6,512.89	VAT invoice with unreadable with invoice number.
"P-38-3-55"	A.amora Blacksmith Repair and Welding Shop	1,332.00	VAT invoice with countersigned alteration on TIN but the countersignature cannot be ascertained as pertaining to the authorized signatory thereof.
"P-38-4-7"	Agway Chemicals Corporation	88.93	VAT invoice with unreadable details.
"P-38-4-8"	Agway Chemicals Corporation	2,401.07	VAT invoice with unreadable details.
"P-38-4-9"	Agway Chemicals Corporation	11,857.50	VAT invoice with unreadable details.
"P-38-4-13"	Genuflect Corporation	1,987.50	VAT invoice with unreadable with invoice number.
"P-38-4-17"	Bayer Crop Science, Inc.	32,832.00	VAT invoice does not show the BIR PTU/ATP details.
"P-38-4-18"	Bayer Crop Science, Inc.	29,412.00	VAT invoice does not show the BIR PTU/ATP details.
"P-38-4-19"	Bayer Crop Science, Inc.	41,868.00	VAT invoice does not show the BIR PTU/ATP details.
"P-38-4-20"	Bayer Crop Science, Inc.	13,824.00	VAT invoice does not show the BIR PTU/ATP details.
"P-38-4-21"	Bayer Crop Science, Inc.	46,656.00	VAT invoice does not show the BIR PTU/ATP details.
"P-38-4-22"	Bayer Crop Science, Inc.	37,152.00	VAT invoice does not show the BIR PTU/ATP details.
"P-38-4-23"	Bayer Crop Science, Inc.	46,224.00	VAT invoice does not show the BIR PTU/ATP details.
"P-38-4-24"	Bayer Crop Science, Inc.	88,560.00	VAT invoice does not show the BIR PTU/ATP details.
"P-38-4-25"	Bayer Crop Science, Inc.	4,560.00	VAT invoice does not show the BIR PTU/ATP details.
"P-38-4-26"	Bayer Crop Science, Inc.	36,036.00	VAT invoice does not show the BIR PTU/ATP details.
"P-38-4-27"	Bayer Crop Science, Inc.	4,560.00	VAT invoice does not show the BIR PTU/ATP details.
"P-38-5-6"	Basf Philippines, Inc	38,939.79	VAT invoice does not show the BIR PTU/ATP details.
"P-38-5-12"	Agway Chemicals Corporation	100,800.00	VAT invoice with unreadable details.
"P-38-5-19"	Bayer Crop Science, Inc.	4,560.00	VAT invoice does not show the BIR PTU/ATP details.

"P-38-5-20"	Bayer Crop Science, Inc.	13,680.00	VAT invoice does not show the BIR PTU/ATP details.
"P-38-5-21"	Bayer Crop Science, Inc.	6,480.00	VAT invoice does not show the BIR PTU/ATP details.
"P-38-5-23"	Genuflect Corporation	6,685.71	VAT invoice with unreadable with invoice number.
"P-38-5-24"	Genuflect Corporation	6,512.89	VAT invoice with unreadable with invoice number.
"P-38-5-33"	JBA Box and Lumber Supply	15,669.64	VAT invoice with countersigned alteration on TIN but the countersignature differs from that of the authorized signatory.
"P-38-6-10"	Basf Philippines, Inc	11,638.93	VAT invoice with unreadable input VAT amount.
"P-38-6-39"	Bayer Crop Science, Inc.	45,792.00	VAT invoice does not show the BIR PTU/ATP details.
"P-38-6-40"	Bayer Crop Science, Inc.	56,160.00	VAT invoice does not show the BIR PTU/ATP details.
"P-38-6-53"	Five Jewels Corporation	19,740.00	VAT invoice with unreadable date, customer name and TIN.
"P-38-6-75"	SGV & Co	37,620.00	VAT OR without the notation "This Receipt shall be valid for 5 years from date of PTU".
"P-38-6-83"	Maxicare Healthcare Corp.	77,091.25	VAT OR does not indicate the nature of service.
"P-38-7-7"	Madrid Danao & Associates	6,600.00	VAT OR with alteration on TIN, but without countersignature of authorized signatory.
"P-38-7-8"	Madrid Danao & Associates	6,600.00	VAT OR with alteration on TIN, but without countersignature of authorized signatory.
"P-38-7-9"	Madrid Danao & Associates	6,600.00	VAT OR with alteration on TIN, but without countersignature of authorized signatory.
"P-38-7-27"	Bayer Crop Science, Inc.	31,968.00	VAT invoice does not show the BIR PTU/ATP details.
"P-38-7-79"	Maxicare Healthcare Corp.	24.64	VAT OR does not indicate the nature of service.
"P-38-7-80"	Maxicare Healthcare Corp.	813.21	VAT OR does not indicate the nature of service.
"P-38-8-29"	Genuflect Corporation	8,391.43	VAT invoice with unreadable with invoice number.
"P-38-8-35"	Bayer Crop Science, Inc.	27,388.80	VAT invoice does not show the BIR PTU/ATP details.
"P-38-8-36"	Bayer Crop Science, Inc.	7,776.00	VAT invoice does not show the BIR PTU/ATP details.
"P-38-9-26"	Genuflect Corporation	7,170.86	VAT invoice with unreadable details.
"P-38-9-34"	Bayer Crop Science, Inc.	34,560.00	VAT invoice does not show the BIR PTU/ATP details and with countersigned alteration on name but the countersignature cannot be ascertained as pertaining to the authorized signatory thereof.
"P-38-9-35"	Bayer Crop Science, Inc.	25,401.60	VAT invoice does not show the BIR PTU/ATP details and with countersigned alteration on name but the countersignature cannot be ascertained as pertaining to the authorized signatory thereof.

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"P-38-9-36"	Bayer Crop Science, Inc.	22,464.00	VAT invoice does not show the BIR PTU/ATP details and with countersigned alteration on name but the countersignature cannot be ascertained as pertaining to the authorized signatory thereof.
"P-38-9-37"	Bayer Crop Science, Inc.	32,486.40	VAT invoice does not show the BIR PTU/ATP details and with countersigned alteration on name but the countersignature cannot be ascertained as pertaining to the authorized signatory thereof.
"P-38-10-37"	Bayer Crop Science, Inc.	41,868.00	VAT invoice does not show the BIR PTU/ATP details and with countersigned alteration on name but the countersignature cannot be ascertained as pertaining to the authorized signatory thereof.
"P-38-10-38"	Bayer Crop Science, Inc.	35,820.00	VAT invoice does not show the BIR PTU/ATP details and with countersigned alteration on name but the countersignature cannot be ascertained as pertaining to the authorized signatory thereof.
"P-38-10-39"	Bayer Crop Science, Inc.	16,416.00	VAT invoice does not show the BIR PTU/ATP details and with countersigned alteration on name but the countersignature cannot be ascertained as pertaining to the authorized signatory thereof.
"P-38-11-14"	Bayer Crop Science, Inc.	32,832.00	VAT invoice does not show the BIR PTU/ATP details and with countersigned alteration on name but the countersignature cannot be ascertained as pertaining to the authorized signatory thereof.
"P-38-11-15"	Bayer Crop Science, Inc.	33,696.00	VAT invoice does not show the BIR PTU/ATP details and with countersigned alteration on name but the countersignature cannot be ascertained as pertaining to the authorized signatory thereof.
"P-38-12-9"	Bayer Crop Science, Inc.	129,600.00	VAT invoice does not show the BIR PTU/ATP details and with countersigned alteration on name but the countersignature cannot be ascertained as pertaining to the authorized signatory thereof.
"P-38-12-10"	Bayer Crop Science, Inc.	43,200.00	VAT invoice does not show the BIR PTU/ATP details and with countersigned alteration on name but the countersignature cannot be ascertained as pertaining to the authorized signatory thereof.
"P-38-12-11"	Bayer Crop Science, Inc.	4,320.00	VAT invoice does not show the BIR PTU/ATP details and with countersigned alteration on name but the countersignature cannot be ascertained as pertaining to the authorized signatory thereof.

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"P-38-12-12"	Bayer Crop Science, Inc.	36,576.00	VAT invoice does not show the BIR PTU/ATP details and with countersigned alteration on name but the countersignature cannot be ascertained as pertaining to the authorized signatory thereof.
"P-38-12-13"	Bayer Crop Science, Inc.	73,728.00	VAT invoice does not show the BIR PTU/ATP details and with countersigned alteration on name but the countersignature cannot be ascertained as pertaining to the authorized signatory thereof.
"P-38-12-14"	Bayer Crop Science, Inc.	13,824.00	VAT invoice does not show the BIR PTU/ATP details and with countersigned alteration on name but the countersignature cannot be ascertained as pertaining to the authorized signatory thereof.
"P-38-12-15"	Bayer Crop Science, Inc.	51,840.00	VAT invoice does not show the BIR PTU/ATP details and with countersigned alteration on name but the countersignature cannot be ascertained as pertaining to the authorized signatory thereof.
"P-38-12-47"	Agway Chemicals Corporation	13.09	Overclaimed input VAT (claimed amount of Php39,364.30 less than VAT invoice amount of Php39,351.21).
"P-38-12-51"	Maxicare Healthcare Corp.	15,648.81	VAT OR does not indicate the nature of service.
Purchases of capital goods not exceeding Php1 Million			
"P-38-13-7"	Lui Enterprises Inc	910.71	VAT invoice does not show the BIR ATP details and the year in date was not clearly shown.
"P-38-13-8"	Alfalink Total Solution Corp.	2,730.00	VAT invoice without the notation "This Invoice shall be valid for 5 years from date of ATP."
"P-38-13-10"	Sujeewa Enterprises, Inc	60,000.00	VAT invoice does not separately indicate the input VAT amount.
Purchase of capital goods exceeding ₱1 Million from prior period (amortized amount)			
	Nandan Jan Irrigation Ltd	163,472.80	No supporting documents.
	Total	**Php2,016,841.17**	

Accordingly, petitioner was able to substantiate only Php8,516,078.81 as its valid input VAT due or paid for TY 2020. The computation is as follows:

Total declared input VAT		Php10,693,488.56
Less: Disallowances		
Per ICPA findings	Php160,568.58	
Per Court's further verification	2,016,841.17	2,177,409.75
Valid input VAT		**Php8,516,078.81**

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The valid input VAT in the amount of Php8,303,869.13 is attributable to zero-rated sales.

It bears reiterating that Section 112(A) requires that the input VAT being claimed for refund must be attributable to zero-rated or effectively zero-rated sales. The same provision further states that when a taxpayer is engaged in both zero-rated or effectively zero-rated sales and taxable or exempt sales, and the input taxes cannot be directly and entirely attributed to any specific category of sales, such input taxes must be allocated proportionately on the basis of the volume of sales.

In this case, petitioner reported the total sales of Php402,763,613.21 for TY 2020, consisting of 12% vatable sales, zero-rated sales, and exempt sales, in the following amounts:

Total Vatable Sales	Php10,034,696.92
Total Zero-Rated Sales	392,727,264.42
Total Exempt Sales	1,651.87
Total Sales	**Php402,763,613.21**

Since petitioner's valid input VAT of Php8,516,078.81 cannot be directly and entirely attributed to its zero-rated sales, the same must be allocated proportionately based on the relative volume of sales, pursuant to Section 112(A), to wit:

Total declared Vatable Sales	Php10,034,696.92
Divided by: total declared Sales	402,763,613.21
Multiplied by: valid input VAT	8,516,078.81
Valid input VAT allocated to declared Vatable Sales	**Php212,174.75**

Total declared Zero-Rated Sales	Php392,727,264.42
Divided by: total declared Sales	402,763,613.21
Multiplied by: valid input VAT	8,516,078.81
Valid input VAT allocated to declared Zero-Rated Sales	**Php8,303,869.13**

Total declared Exempt Sales	Php1,651.87
Divided by: total declared Sales	402,763,613.21
Multiplied by: valid input VAT	8,516,078.81
Valid input VAT allocated to declared Exempt Sales	**Php34.93**

As shown above, petitioner's valid input VAT attributable to its total declared zero-rated sales for TY 2020 amounts to Php8,303,869.13.

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The subject input taxes have not been applied against output taxes during and in the succeeding quarters.

In *Chevron Holdings, Inc. (Formerly Caltex Asia Limited) v. Commissioner of Internal Revenue*,[93] the Supreme Court clarified that:

> The input tax attributable to zero-rated sales may, at the option of the VAT-registered taxpayer, be: (1) **charged against output tax from regular 12% VAT-able sales, and any unutilized or "excess" input tax may be claimed for refund or the issuance of tax credit certificate**; or (2) **claimed for refund or tax credit in its entirety.** It must be stressed that the remedies of charging the input tax against the output tax and applying for a refund or tax credit are alternative and cumulative. (Emphasis supplied)

In the present case, petitioner availed of the first option. It applied the input VAT incurred during the four (4) quarters of TY 2020 against its output VAT for the same periods, and claimed a refund for the remaining unutilized or excess input VAT.

However, the valid input VAT allocated to petitioner's declared vatable sales amounting to Php212,174.75 is insufficient to fully offset its output VAT liabilities of Php1,204,163.63. Accordingly, the valid input VAT allocated to total declared zero-rated sales of Php8,303,869.13 must be applied to cover the remaining output VAT still due in the amount of Php991,988.88.

This results in an excess input VAT attributable to declared zero-rated sales in the amount of Php7,311,880.25, computed as follows:

Output VAT due per quarterly VAT returns	Php1,204,163.63
Less: Valid input VAT allocated to declared Vatable Sales	212,174.75
Output VAT still due	**Php991,988.88**

Valid input VAT allocated to declared Zero-Rated Sales	Php8,303,869.13
Less: Output VAT still due	991,988.88
Excess valid input VAT allocated to declared Zero-Rated Sales	**Php7,311,880.25**

[93] G.R. No. 215159, July 5, 2022.

Consequently, only the remaining input VAT of Php7,311,880.25 may be attributed to petitioner's declared zero-rated sales of Php392,727,264.42. Out of this amount, only Php6,769,444.83 is attributable to the petitioner's valid zero-rated sales of Php363,592,599.98, as computed below:

Excess valid input VAT allocated to declared Zero-Rated Sales	Php7,311,880.25
Divided by: declared zero-rated sales	392,727,264.42
Multiplied by: valid zero-rated sales	363,592,599.98
Refundable valid input VAT	**Php6,769,444.83**

Furthermore, although the claimed input VAT of Php9,489,325.11, which includes the refundable valid input VAT of Php6,769,444.83, was carried-over by petitioner in its succeeding *Quarterly VAT Returns*, the same remained unutilized until it was deducted as "VAT Refund/TCC claimed"[94] in its amended *Quarterly VAT Return* for the 4th quarter of TY 2021. This deduction prevented the carry-over of such input taxes into subsequent periods and barred their application to any future output tax liabilities. Thus, petitioner is deemed to have satisfied the ninth requisite for the grant of a refund or the issuance of a tax credit certificate.

In fine, petitioner has sufficiently proven its entitlement to the refund or issuance of tax credit certificate in the amount of **Php6,769,444.83**, representing its excess and unutilized input VAT attributable to its zero-rated sales for the four (4) quarters of TY 2020.

WHEREFORE, in light of the foregoing considerations, the present *Petition for Review* is **PARTIALLY GRANTED**.

Accordingly, the respondent is **ORDERED TO REFUND** or **ISSUE A TAX CREDIT CERTIFICATE** in favor of petitioner, the amount of **Php6,769,444.83**, representing the latter's excess and unutilized input VAT for the four (4) quarters of TY 2020.

SO ORDERED.

HENRY S. ANGELES
Associate Justice

[94] Line 23D, Exhibit "P-18," BIR Records (Exhibit "R-5"), p. 126.

WE CONCUR:

Catherine T. Manahan

CATHERINE T. MANAHAN
Associate Justice

Marian Ivy F. Reyes-Fajardo

MARIAN IVY F. REYES-FAJARDO
Associate Justice

ATTESTATION

I attest that the conclusions in the above Decision were reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

Catherine T. Manahan

CATHERINE T. MANAHAN
Associate Justice
Third Division Chairperson

CERTIFICATION

Pursuant to Article VIII, Section 13 of the Constitution, and the Division Chairperson's *Attestation*, it is hereby certified that the conclusions in the above *Decision* were reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

MA. BELEN RINGPIS-LIBAN
Acting Presiding Justice