REVENUE MEMORANDUM ORDER NO. 27-2005 issued on October 24, 2005 prescribes a short audit for the Value-Added Tax (VAT) liabilities of taxpayers with reported zero-rated sales and exempt sales under the jurisdiction of the Large Taxpayers Service and the Regional Offices for the taxable year 2004 and the first semester of taxable year 2005.

The top priority for audit under this program shall come from the following selected industries:

a. Telecommunication companies
b. Manufacturing (Flour, Softdrinks, Sugar, Cement and Plastic)
c. Logistics Providers (Arrastre, Stevedoring, Freight, Trucking and Courier Services)
d. Construction

The Revenue District Offices (RDOs) and investigating divisions/offices of the Large Taxpayers Service (LTS) – Large Taxpayers Audit and Investigation Division (LTAID) I, LTAID II, LT District Office (LTDO) Makati and LTDO Cebu shall conduct the short audit of VAT liabilities as prescribed in the Order.

The Regional Director/OIC-LTS shall ensure that the tax returns to be audited/investigated under this program are not among those being audited under the regular audit program or other programs initiated by the Commissioner.

The initial list of taxpayers to be audited shall be the list generated by the Information Systems Group (ISG), which shall be provided to the Regional Director/OIC-LTS, copy furnished the Assistant Commissioner-Assessment Service, for issuance of the corresponding Letters of Authority/Assessment Notices (LAs/ANs). Subsequently, the RDOs and investigating divisions/offices of the LTS may identify additional taxpayers not yet included in the list provided by the ISG.

LAs/ANs may already be issued by the Regional Director/OIC-LTS once the list of taxpayers chosen to be audited has been approved. The Commissioner may, however, order or recommend the cancellation of the LA/AN if, upon evaluation by the Assessment Service and review by the Deputy Commissioner-Operations Group (DCIR-OG) of the submitted list, a violation of the Order has been committed.

LAs/ANs shall be issued only when the duplicate copy of VAT returns for all the months/quarters of year 2004 and first semester of 2005 covered by the LA/AN is attached thereto.

Audits of all cases covered by LAs/ANs shall be completed and corresponding reports thereon shall be submitted by the Revenue Officer (RO) within 30 days from issuance of the LAs/ANs. In case the report cannot be rendered within the prescribed period due to constraints attributable to the taxpayer, the RO may request for the revalidation of the LA/AN for the same period. Only one revalidation of the LA/AN shall be allowed provided the RO shall render a progress report on the case duly noted by the Group Supervisor and approved by the head of the investigating division/office. The previously issued LA/AN shall be stamped "Revalidated on ___________" and shall be signed by the Regional Director/OIC-LTS.

The Assessment Division/LTS Review Team shall review all dockets covered by LAs/ANs prior to the issuance of a preliminary/final assessment notice, termination letter, confirmation letter and tax credit certificate or refund check. In case the reviewers in the Assessment Division/LTS Review Team discover certain additional deficiency taxes as a result of their audit review or find that the taxpayers are excessively assessed or require compliance with certain procedures or submission of additional necessary documents, the dockets of the case shall be returned to the originating investigating office for appropriate action. The reviewing officer shall, in no case, be allowed to make any adjustment to the audit reports submitted by the investigating office.

The Regional Director/OIC-LTS shall maintain a register of all LAs/ANs issued. All issuances, revalidations, cancellations, case closures, assessments and other matters in relation to

LAs should be entered in the LA/AN Register. Entries in the register must be complete and updated at all times. Where the LA Monitoring System has been rolled out, the LA/AN should be encoded into the system, which should be utilized as to the functionalities available.