REPUBLIKA NG PILIPINAS
KAGAWARAN NG PANANALAPI
KAWANIHAN NG RENTAS INTERNAS

Quezon City

October 27, 2006

REVENUE MEMORANDUM CIRCULAR No. 67-2006

SUBJECT: Pre-Audit by the Regional Offices of 2005 Tax Returns Not Selected for Issuance of Letter of Authority/Audit Notice/Tax Verification Notice under Revenue Memorandum Order (RMO) No. 11-2006, as Amended by RMO No. 18-2006

TO : All Regional Directors, Revenue District Officers, Regional Division Chiefs, Revenue Officers and Others Concerned

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In order to ensure strict compliance of taxpayers with internal revenue laws and regulations in relation to the requisites of deductibility of certain expenses and payment of correct income/percentage tax, the following 2005 tax returns not selected for issuance of Letter of Authority/Audit Notice/Tax Verification Notice under RMO No. 11-2006, as amended by RMO No. 18-2006, which prescribes the 2006 Audit Program for Revenue District Offices (RDOs), shall be pre-audited by the concerned office assigned by the Regional Director:

1. Percentage tax returns;

2. Tax returns of taxpayers claiming the following deductions from gross income:

   2.1 Interest expense;
   2.2 Contributions; and
   2.3 Representation expense;

3. Corporate income tax returns on the applicability of the minimum corporate income tax (MCIT) pursuant to Sec. 27(E) and Section 28(A)(2) of the National Internal Revenue Code of 1997 (Tax Code), as implemented by Revenue Regulations (RR) No. 9-98 and clarified through Revenue Memorandum Circular No. 4-2003; and

4. Tax returns with claimed creditable withholding taxes against tax due to determine correct substantiation of claims through the certificates attached to the returns.

The following guidelines and procedures shall be observed in the pre-audit of the abovementioned tax returns:

1. The Regional Director shall issue a Tax Verification Notice (TVN) only if, upon pre-audit of the concerned office, it is determined that there is a discrepancy in the tax payment. No TVNs shall be issued by the Regional Director without the attached duplicate copy of the tax returns.

2. The pre-audit shall not be construed as a regular audit/investigation since the Revenue Officer shall limit his verification on the mathematical computation of income and/or percentage tax due, creditable withholding tax claimed per income tax return, as well as percentage tax return, and compliance with RR Nos. 9-98, 13-98, 13-2000 and 10-2002 as to the limitation for deductibility of expense items as reflected/ claimed on the tax returns filed. No fieldwork in relation to the pre-audit of tax returns prescribed in this Order shall be allowed.

3. The assigned Revenue Officer shall perform the following:

   3.1 Prepare the memorandum report;

   3.2 Inform the taxpayer in writing of the discrepancy in his/its tax payment;

   3.3 Require the taxpayer to settle the said deficiency tax within fifteen (15) days from receipt of notice;

   3.4 In case the taxpayer agrees to pay the deficiency tax, BIR Form No. 0605 (Payment Form) shall be utilized for this purpose and a copy of the proof of payment shall be attached to the report;

   3.5 If the taxpayer fails to respond to the notice or does not pay the deficiency tax, prepare a report recommending for the issuance of a final assessment notice in relation to Sec. 228 of the 1997 Tax Code; and

   3.6 Transmit the report of verification with the corresponding attachments to the Office of the Regional Director for review and issuance of Final Assessment Notice.

4. Reporting requirements to be submitted on or before the 10th day of the month:

Name of Report		Office/ Person Responsible	Distribution of Report
4.1	Monthly Report on Tax Verification Notices Issued (Annex A)	Regional Director	a. Office of the Commissioner b. Office of the DCIR-OG (Assessment Service)

Name of Report		Office/ Person Responsible	Distribution of Report
4.2	Monthly Report of Cases Covered by Tax Verification Notices on the Pre-Audit of 2005 Tax Returns (Annex B)	Concerned Office Assigned by the Regional Director	a. Office of the Commissioner b. Office of the DCIR-OG (Assessment Service) c. Office of the Regional Director
4.3	Monthly Report on Final Assessment Notices (FANs) Issued and Collections Arising from the Pre-Audit of 2005 Tax Returns (Annex C)	Office of the Regional Director	a. Office of the Commissioner b. Office of the DCIR-OG (Assessment Service)

5. The conduct of pre-audit of tax returns must be accomplished and reported on or before December 15, 2006.

The herein prescribed pre-audit of selected tax returns to check mathematical accuracy of the figures may be adopted by the offices under the Large Taxpayers Service in appropriate cases.

This Circular shall take effect immediately and shall be given as wide a publicity as possible.

(Original Signed)
JOSE MARIO C. BUÑAG
Commissioner of Internal Revenue

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