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

March 29, 2012

REVENUE MEMORANDUM ORDER NO. 5-2012

SUBJECT: Prescribing the Revised Guidelines, Policies Procedures in the Conduct of Performance Benchmarking Method Amending for this Purpose Revenue Memorandum Order (RMO) No. 4-2006

TO : All Revenue Officials and Others Concerned

Introduction:

The Bureau of Internal Revenue, the country's premier collecting agency, is assigned to collect more than 70% of the revenue target of the National Government. As it is faced with this gargantuan task, the Bureau's role is not only confined to meeting the revenue target, but also to addressing tax leakages, or the schemes being applied by some taxpayers and tax practitioners in reducing tax payments to the government. In addressing these schemes, particular focus should be given to the vibrant tax types that the Bureau is collecting, the Value Added Tax (VAT) and Income Tax which comprise 80.54% of the Bureau's overall collection[1].

VAT Revenue Performance

According to the National Tax Research Center (NTRC), VAT Revenue performance is influenced by certain factors such as the performance of the economy, government policies and collection efforts of tax authorities. If the performance of the economy improves, VAT collections will also improve, given a constant level of collection efficiency[2].

VAT is an indirect tax attached to almost all sales of goods and services. The international norm for VAT collections in a country where it exists is 35% of all tax

[1]2010 BIR Annual Report page 10 - Percent Distribution of BIR Collection by Major Types of Taxes
[2]NTRC Paper page 1, Value Added Tax Gap: 2000-2007 dated July 31, 2009

revenues[3]. Our ratio of VAT collections to total collections from operations for TYs 2010 and 2009 is 21.06% and 22.43%, respectively[4] -very much below the above-mentioned norm. This probably explains why, as a percent of GDP, our actual VAT collections averaged merely 3.36%. With a VAT rate of 12% in 2006 and 2007 or 10% in prior years, a VAT effort of 4% or 3% indicates that only one-third (1/3) of the economic activities were captured by the VAT, despite reforms that expanded the VAT base. The calculation, therefore, of the VAT gap/leakages is imperative to determine how much of the tax base was effectively captured by the vibrant tax collecting authorities[5] and the tax authorities shall therefore find innovative approaches that can detect the tax leakages from economic transactions with the end in view of capturing said leakages into the tax net.

Accordingly, the Bureau shall adopt the Performance Benchmarking Method as a surgical measure to detect tax leakages and improve collections on VAT, Income Tax and other taxes. This approach finds support under Section 5(E) of the National Internal Revenue Code, as amended, in relation to Section 6(C) of the same Code.

I. Objectives:

This Order aims to prescribe the revised/updated policies, guidelines and/or procedures in the conduct of taxpayer profiling and benchmarking activities to all Regional and Revenue District Offices (RDOs). It also provides an effective tool in addressing collection problems, plugging tax leakages and implementing a risk-to-revenue based audit and enforcement activities.

Specifically, this Order is issued to:

1. Address the downward trend in revenue collections by providing an environment that levels the playing field among all taxpayers belonging to the same industry;

2. Empower revenue officials and employees concerned to deal with the numerous incidence of registered taxpayers who are neither filing their tax returns nor paying the correct taxes;

3. Adopt a set of principles and methods that provide the basic formula in computing the benchmark and guide the district offices concerned towards a more systematic or well-balanced implementation of the Benchmarking Program.

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[3]World Bank Paper – Assessing Tax System using Benchmarking Methodology by Mark Gallegher, April 2004 page 8
[4]TY 2010 Annual Report, Page 10 – Comparative BIR Collection, Jan-Dec, 2010 & 2009
[5]NTRC Paper – Value Added Tax Gap: 2000-2007 dated July 31, 2009, page 3

II. Definition

For the purpose of implementing the benchmarking and profiling of taxpayers, the following terms are hereby defined:

1. **Benchmark** is a point of reference for measurement or a set of standard to be used to measure the performance/compliance of taxpayers in a particular industry.

2. **Benchmarking of taxpayers** refers to the process of setting a standard to determine the performance level of taxpayers in a given line of industry or sector. In this case, the ratios of Net VAT Due and Income Tax Due in relation to gross sales/receipt, vis-à-vis profit margin rate is to be used for the purpose of setting the industry standard for taxpayers' compliance.

3. **Tax Gap** is defined as the aggregate amount of true tax liability imposed by law for a given tax year that is not paid voluntarily and timely. It represents the difference between the actual revenue collected and the amount that would be collected if there were 100 percent compliance.[6]

4. **Gross Compliance Ratio** is defined as the actual VAT collection in ratio or as percentage to total potential VAT collection[7].

5. **Effective VAT Ratio (EVR)** means the profit margin rate of an industry, as benchmarked, multiplied by the VAT rate fixed by law.

6. **Taxpayer Profiling** is a method of gathering data or information to determine the general view of what is actually occurring within a system. It covers extensive analysis of taxpayer data within a given line of industry to diagnose compliance bottlenecks.

7. **Simple Average Method** is a method of computing the average figure by dividing the total by the set of numbers.

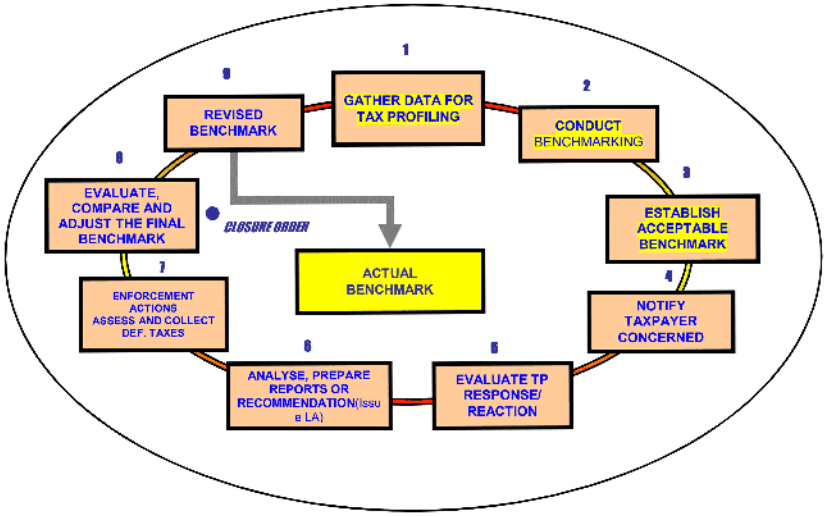
8. **High-Low Point Method** is a method of computing the mean by taking the highest and the lowest points from the set of numbers. The mean represents the normal level points.

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[6]Reducing the Federal Tax Gap (A Report in Improving Voluntary Compliance – IRS U.S. Department of Treasury), August 2, 2007, page 6.
[7] Ibid.

9. **Benchmarking Cycle** consists of systematic steps or procedures designed to accomplish the ultimate aim of determining the correct standard or benchmark.

The cycle shall cover nine (9) major activities as follows:



III. General Policies

1. Benchmarking Program/Activities in the Regional/District offices shall cover as many types of taxpayers by industry as may be applicable. Large Taxpayers, however, may later be fully covered by the Benchmarking Program/Activities.

2. Benchmarking shall be done separately for corporate and individual taxpayers;

3. There shall be created a Benchmarking Committee, chaired by the Deputy Commissioner for Operations. The Assistant Commissioners of Assessment Service, Policy and Planning Service, Large Taxpayers Service, and the Proponent Regional Director for Benchmarking Program shall be called as Project Directors, and shall serve as Committee members, with the following responsibilities:

   I. Benchmarking Committee Chairman:

      a. Monitor the compliance by LTS, Regional Offices and Revenue District Offices in the submission of taxpayers profiled data for Benchmarking for 2010/2011;

      b. Ensure that a determination and setting-up of an acceptable standard or industry benchmark rates for tax compliance by

taxpayers throughout the country is done within the scheduled time frame set by the Commissioner;

c. The Committee Chairman shall report to the Commissioner as to which office in the Regional or District offices, had effectively implemented the Program. Likewise, those who are showing weak or poor implementation should be identified and reported.

d. A Technical Working Group may be created by the Chairman, if necessary. The Group, headed by a Regional Director, may be composed of selected Revenue District Officers, Assistant Revenue District Officers and Revenue Officers from different districts of Metro Manila, Luzon, Visayas, and Mindanao, to ensure wide dissemination of the Benchmarking Program.

II. Benchmarking Project Directors:

a. Responsible for gathering the duly profiled taxpayers' data from the LTS and the Regional and District offices;

b. Responsible for establishing the acceptable benchmark rates. For this purpose, the Project Directors shall recommend to the members of the MANCOM thru the Chairman, Benchmarking Committee, the approval of the acceptable benchmark rate per industry. Initially covered in the program are the top ten (10) industries or the maximum number of industries found in every district offices. Priority shall be chosen from the TAMP taxpayers of the district.

c. Directly oversee the proper implementation and monitoring of the benchmarking program.

4. The LTS Assistant Commissioner (ACIR) or the Head Revenue Executive Assistants (HREAs), in the absence of the former, the LTS Audit Division Chiefs, the Regional Directors and all Revenue District Officers shall cause the implementation of benchmarking program and activities under their respective jurisdictions. For the Large Taxpayers however, the benchmarking program shall initially be limited to the gathering and profiling of data and setting the benchmark for taxpayers under their jurisdiction. The Revenue District Officers, in close coordination with their respective Regional Directors, shall have the

responsibility of ensuring the timely conduct of tax profiling and benchmarking. The benchmarking cycle shall be strictly followed;

5. Guided by the procedures herein provided, LTS Audit Division Chiefs; to the extent applicable to it, and Revenue District Officers shall ensure that the benchmarking cycle is completed within the required timeframe. The following shall likewise be observed:

   a. In cases where Letters of Authority have been issued to taxpayers, the LT Audit Division Chiefs, and RDOs concerned shall take into consideration the established benchmark in the industry where the subject taxpayer belongs before considering the case closed and terminated;

   b. Any downtrend deviation from the benchmark shall be fully explained and such data shall form part of the inputs in the revision of final benchmark rates;

   c. All issues and concerns raised by taxpayers in the implementation of this program that call for immediate action shall be the responsibility of the implementing office. Reports of action taken thereon must be furnished the Benchmarking Committee.

6. Taxpayers whose tax compliance is below the duly established and approved benchmark shall be classified as follows:

Classifications	***Risk to Revenue/Gap to Benchmark***
High Risk Taxpayers	*Over 30% below benchmark*
Middle Risk Taxpayers	*16% to 30% below benchmark*
Low Risk Taxpayers	*15% or less below benchmark*

7. Taxpayers classified as high risk shall be the top priority target for enforcement actions, such as Surveillance, CRM/POS Post Evaluation, Oplan Kandado, Inventory Stocktaking and Audit;

8. The Benchmarking Committee shall be responsible for reporting and recommending the appropriate actions that may be taken and/or sanctions that may be imposed against taxpayers or any other person found to be supplying/submitting false or fabricated data purportedly to meet the benchmark requirements;

9. The industry benchmark maybe revised every two (2) years from approval hereof or when a law is passed changing the rate of VAT

and Income Tax whichever comes first, or as may be directed by the Commissioner.

IV. Guidelines and Procedures for the Conduct of Benchmarking

Benchmarking Cycles:

1. Gather taxpayer data.

    a. Gather all pertinent data such as VAT Returns and Income Tax Returns together with Financial Statements attached to the returns.
    b. Ascertain if the Philippine Standard Industry Code (PSIC) used by the taxpayer corresponds to the real economic activity or line of business the taxpayer is engaged in.
    c. Sort out or sub-classify further the tax returns into specific categories, if necessary, for example:

Industry	Sub-classification
Manufacturing	Food, Cement, Steel, Drugs, etc.
Trading	Dept. Stores, Supermarkets, Convenience Stores, Hardwares, Construction Supplies, etc.
Restaurants	Fast Food, Cafes or Fine Dining, etc.
Hotels and Motels	Hotels, Motels, Pension Houses, Lodging Houses, etc.

From the chosen industry group, the following minimum number of taxpayers to represent industry universe or industry population shall be observed, as follows:

    i. Metro Manila Regions (RRs 4 to 9) - at least *20* taxpayers per industry per district, or the maximum qualified taxpayers per industry in the district.
    ii. Other Regions – at least 10 taxpayers per industry or the maximum qualified taxpayers per industry in the district
    iii. LTS – at least 5 taxpayers per industry

2. Prepare the taxpayers profile.

    a. List the taxpayers with their data using the following columns:

Taxpayer Profile (Annex "A" hereof)

TIN	TAXPAYERS	PRODUCT LINE (major line of business)	LAT/MM/MLH	SALES			TOTAL SALES	GROSS PROFIT	GP RATE	IT DUE	RATIO ITR/S		VT DUE	RATIO VT/SS		DEFICIENCY TAXES PAID (BASIC)					NAME OF EXTERNAL AUDITOR
				VATABLE	ZERO-RATED	EXEMPT					(before audit)	after audit		before audit	after audit	VT	IT	PT	ET	DST	

b. Gather VAT and Income Tax Returns of taxpayers and classify them according to industry, using the PSIC Code.

c. VAT returns with carry-over input VAT and those that carry input VAT due to purchase of capital goods shall be excluded. Likewise, taxpayers whose tax returns carry a multiple line of business and those with government transactions (sales to government) shall also be excluded.

If taxpayers' tax returns for the taxable year profiled are subjected to audit, the basic deficiency VAT and Income Tax collected thereon shall be included in the profiling.

d. Compute for the rates or ratios i.e. Gross Profit Rate, IT Rate, VAT Rate. Gross profit rate is derived by dividing gross profit over gross sales (regular rate). VAT rate is computed by dividing the total VAT due/payments over gross sales subject to VAT, while IT rate is from income tax due/payments over total sales or revenue (regular rate). Please see Figure 1, hereof.

PERFORMANCE BENCHMARKING ANALYSIS

LIST OF TAXPAYERS
INDUSTRY NAME (Ex. Garments)

					TAX PAYMENTS		COMPLIANCE RATE (%)		
NO.	TIN	NAME OF TAXPAYER	GROSS SALES (1)	GROSS PROFIT (2)	INCOME TAX (3)	VAT (4)	GP RATE (2/1)	IT RATE (3/1)	VAT RATE (4/1)
1	xxx-xxx-xxx	Taxpayer 1	4,123,810	2,886,333	173,830	224,948	69.99	4.22	5.45
2	xxx-xxx-xxx	Taxpayer 2	15,202,205	7,705,210	459,395	1,020,151	50.68	3.02	6.72
3	xxx-xxx-xxx	Taxpayer 3	17,632,950	8,743,287	55,892	333,084	49.58	0.32	1.89
4	xxx-xxx-xxx	Taxpayer 4	17,515,356	8,390,091	168,223	986,522	47.90	0.96	5.63
5	xxx-xxx-xxx	Taxpayer 5	115,122,300	49,670,349	3,851,807	4,203,108	43.15	3.35	3.65
6	xxx-xxx-xxx	Taxpayer 6	5,178,390	2,111,199	41,246	178,226	40.77	0.80	3.44
7	xxx-xxx-xxx	Taxpayer 7	15,130,997	2,364,500	60,364	682,678	15.63	0.40	4.51
8	xxx-xxx-xxx	Taxpayer 8	131,182,297	18,772,339	641,318	-	14.31	0.49	0
9	xxx-xxx-xxx	Taxpayer 9	9,149,320	926,097	122,296	1,813,068	10.12	1.34	19.82
10	xxx-xxx-xxx	Taxpayer 10	22,537,193	1,890,450	247,918	1,446,832	8.390	1.10	6.42
AVERAGE			35,277,482	10,345,986	582,229	1,088,862	35.05	1.60	5.75

Compute for the compliance rate:
- ✓ GP Rate = Gross Profit / Gross Sales (regular rate)
- ✓ IT Rate = Income Tax / Gross Sales
- ✓ VAT Rate = VAT / Gross Sales

FIGURE 1

e. Arrange the resulting data according to gross profit ratio from highest to lowest. Analyze the data taking into consideration three things: normal industry profit margin, VAT and Income Tax compliance as expressed in ratios, and sales volume or revenue. Guided by these figures, choose the model, please see figure 2 hereof.

PERFORMANCE BENCHMARKING ANALYSIS

LIST OF TAXPAYERS
<INDUSTRY NAME>

					TAX PAYMENTS		COMPLIANCE RATE (%)		
no.	TIN	NAME OF TAXPAYER	GROSS SALES (1)	GROSS PROFIT (2)	INCOME TAX (3)	VAT (4)	GP rate (2/1)	IT rate (3/1)	VAT rate (4/1)
1	xxx-xxx-xxx	Taxpayer 1	4,123,810.00	2,886,333.00	173,830.00	224,948.55	69.99	4.22	5.45
2	xxx-xxx-xxx	Taxpayer 2	15,202,205.10	7,705,210.42	459,394.61	1,021,151.06	50.68	3.02	6.72
3	xxx-xxx-xxx	Taxpayer 3	17,632,950.29	8,743,286.70	55,892.00	333,084.30	49.58	0.32	1.89
4	xxx-xxx-xxx	Taxpayer 4	17,515,355.53	8,390,091.05	168,223.34	986,522.08	47.90	0.96	5.63
5	xxx-xxx-xxx	Taxpayer 5	115,122,300.00	49,670,349.00	3,851,807.00	4,203,107.94	43.15	3.35	3.65
6	xxx-xxx-xxx	Taxpayer 6	5,178,390.00	2,111,199.00	41,245.75	178,225.94	40.77	0.80	3.44
7	xxx-xxx-xxx	Taxpayer 7	15,130,997.00	2,364,500.00	60,364.00	682,677.85	15.63	0.40	4.51
8	xxx-xxx-xxx	Taxpayer 8	131,182,297.00	18,772,339.00	641,318.00		14.31	0.49	0.00
9	xxx-xxx-xxx	Taxpayer 9	9,149,319.97	926,097.22	122,296.00	1,813,067.76	10.12	1.34	19.82
10	xxx-xxx-xxx	Taxpayer 10	22,537,193.39	1,890,450.07	247,918.20	1,446,832.34	8.39	1.10	6.42

Taxpayers are grouped according to identified profit range from highest to lowest.

FIGURE 2

f. From the list of taxpayers (respondents) above who belong to industry (ex. Garments), Taxpayers 1 to 6 are chosen as models under three (3) considerations:

1) Normal industry profit margin
2) Income Tax compliance, in ratios and sales volume
3) VAT compliance, in ratios and sales volume

GP Rate = GP/TS (Range) (Business Performance)	TAXPAYERS No.		%	
Over 40%	6	6	60	60
Over 35% up to 40%	0		0	
Over 30% up to 35%				
Over 20% up to 30%	0		0	
Over 10% up to 20%	3		30	
Below 10%	1		10	
TOTAL	10		100	

a) Prepare data computed for simple average and group business performance (GP rates - range)

b) Select the model group for evaluation

c) Take the simple average of the model group

GP Rate = GP/TS (Range) (Business Performance)	TAXPAYERS No.		%		IT Rate (%)		VAT Rate (%)		GPR Rate (%)	
Over 40%	6		60		2.11		4.46		50.36	
Over 35% up to 40%	0	6	0	60	0	2.11	0	4.46	0	50.35
Over 30% up to 35%	0		0		0		0		0	
Over 20% up to 30%	0		0		0		0		0	
Over 10% up to 20%	3		30		0.74		12.17		13.35	
Below 10%	1		10		1.10		6.42		8.39	

FIGURE 3

Select the model group for evaluation and take the simple average of the model group. This is where the decision making starts (please see Figure 3, hereof).

Decision:

1. Taking into consideration the industry classifications, taxpayers chosen as model for tax compliance (in this example) are those taxpayers whose performances reflect a profit range of at least 40% up.
2. At least 20% or more of the representative or industry players shall be chosen as the models (Nos. 1 – 6).
3. From the models, take the average rate of tax compliance: *IT rate = 2.11%; VT rate = 4.46%; GP rate = 50.35%*

g. Prepare the Hi-Low Point Analysis by identifying *(1)* the highest rate, *(2)* the lowest rate and *(3)* the mean of the Hi-Lo rates, in each group (please see Figure 4, hereof). Using the selected model group for evaluation, obtain the hi-low points from the data.

LIST OF TAXPAYERS
<INDUSTRY NAME>

no.	TIN	NAME OF TAXPAYER	COMPLIANCE RATE (%) GP rate (2/1)	IT rate (3/1)	VAT rate (4/1)
1	xxx-xxx-xxx	T	69.99	4.22	5.45
2	xxx-xxx-xxx	T	50.68	3.02	6.72
3	xxx-xxx-xxx	T	49.58	0.32	1.89
4	xxx-xxx-xxx	T	47.90	0.96	5.63
5	xxx-xxx-xxx	T	43.15	3.35	3.65
6	xxx-xxx-xxx	T	40.77	0.80	3.44
7	xxx-xxx-xxx	T	15.63	0.40	4.51
8	xxx-xxx-xxx	T	14.31	0.49	0.00
9	xxx-xxx-xxx	T	10.12	1.34	19.82
10	xxx-xxx-xxx	T	8.39	1.10	6.42

over 40%

over 10%

Less 10%

GP rate HI	GP rate LO	GP rate MEAN	IT rate HI	IT rate LO	IT rate MEAN	VAT rate HI	VAT rate LO	VAT rate MEAN
69.99	40.77	55.38	4.22	0.32	2.27	6.72	1.89	4.31
43.15	8.39	25.77	1.34	0.40	0.87	19.82	0.00	9.91
8.39	8.39	8.39	1.10	1.10	1.10	6.42	6.42	6.42

For purposes of illustration, taxpayers are grouped according to identified profit range.

FIGURE 4

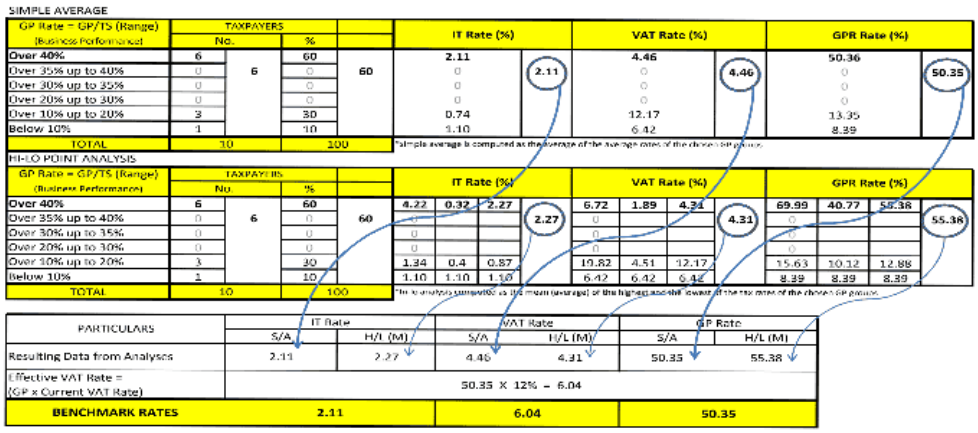
Similar to the Simple Average approach:

IT*[(4.22+0.32)/2]=2.27%;* ***VT****[(6.72+1.89)/2]=4.31%;*

with a ***GP*** *rate of 55.38% [(69.99+40.77)/2].*

3. Evaluate the result and Establish Benchmark.

a. This step (evaluation of results and benchmarking) calls for a decision-making process, which shall require participation of an industry champion or person/official with in-depth or extensive knowledge on the particular industry. Said person/official may also possess knowledge on the intricacies of industry's operation in view of his/her long years of experience as tax auditor or examiner in the Bureau.



SIMPLE AVERAGE

GP Rate = GP/TS (Range) (Business Performance)	TAXPAYERS No.		%		IT Rate (%)		VAT Rate (%)		GPR Rate (%)	
Over 40%	6	6	60	60	2.11	2.11	4.46	4.46	50.36	50.35
Over 35% up to 40%	0		0		0		0		0	
Over 30% up to 35%	0		0		0		0		0	
Over 20% up to 30%	0		0		0		0		0	
Over 10% up to 20%	3		30		0.74		12.17		13.35	
Below 10%	1		10		1.10		6.42		8.39	
TOTAL	10		100		*Simple average is computed as the average of the average rates of the chosen GP groups.					

HI-LO POINT ANALYSIS

GP Rate = GP/TS (Range) (Business Performance)	TAXPAYERS No.		%		IT Rate (%)			VAT Rate (%)			GPR Rate (%)		
Over 40%	6	6	60	60	4.22	0.32	2.27	6.72	1.89	4.31	69.99	40.77	55.38
Over 35% up to 40%	0		0		0		2.27	0		4.31	0		55.38
Over 30% up to 35%	0		0		0			0			0		
Over 20% up to 30%	0		0		0			0			0		
Over 10% up to 20%	3		30		1.34	0.4	0.87	19.82	4.51	12.17	15.63	10.12	12.88
Below 10%	1		10		1.10	1.10	1.10	6.42	6.42	6.42	8.39	8.39	8.39
TOTAL	10		100		*Hi-lo analysis computation is the mean (average) of the highest and lowest of the tax rates of the chosen GP groups.								

PARTICULARS	IT Rate		VAT Rate		GP Rate	
	S/A	H/L (M)	S/A	H/L (M)	S/A	H/L (M)
Resulting Data from Analyses	2.11	2.27	4.46	4.31	50.35	55.38
Effective VAT Rate = (GP x Current VAT Rate)	50.35 X 12% = 6.04					
BENCHMARK RATES	**2.11**		**6.04**		**50.35**	

FIGURE 5

b. For purposes of statistical inference, the Hi-Lo Point Method of computation is applied as part of the selection for the benchmark figure. Computation for standard rate of tax compliance for VAT shall be the average profit margin from the model multiplied by the VAT rate of 12%, which shall be called the effective VAT rate.

c. Choose the figure as computed, and establish the benchmark rate. Choose from the resulting computation between Simple Average Method or the High and Low Point Method or the effective VAT rate, whichever is higher.

RESULT AND EVALUATION

PARTICULARS	IT Rate		VAT Rate		GP Rate	
	S/A	H/L (M)	S/A	H/L (M)	S/A	H/L (M)
Resulting Data from Analyses	2.11	2.27	4.46	4.31	50.35	55.38
Effective VAT Rate = (GP x Current VAT Rate)	50.35 X 12% = 6.04					
BENCHMARK RATES	**2.11**		**6.04**		**50.35**	
Rationale	Whichever is lower between S/A and H/L(M)		☐ Whichever is lower between S/A and H/L(M) ☒ Whichever is higher bet. Gross Compliance Rate (GCR) & Effective VAT Rate (EVR)		☒ Whichever is lower between S/A and H/L(M) ☐ Industry Norm ☐ Others	

FIGURE 6

Benchmark Application: a) On GCR – W/A vs HL, whichever is lower.
b) On GCR vs EVR, whichever is higher.

Therefore, the benchmark as shown above are:

IT = 2.11%; VT = 6.04%; and GPR = 50.35% of sales

d. Using the benchmark, tTaxpayers are now classified into High, Middle or Low Risks in relation to the estimated revenue loss which represents the tax gap (VAT and Income Tax).

This means that if all taxpayers are paying their VAT and Income Taxes within the standard rate of compliance by industry (VAT=6.04%; IT-2.11% of sales), such figures of revenue loss *(IT=3.27M + VT=11.87M = 15.14M)* should have been part of the collections of the government.

INCOME TAX (IT) : benchmark is 2.11%

GROSS PROFIT RANGE (Business Performance)	NO. OF RESPONDENTS	% TO TOTAL RESPONDENTS	GROSS SALES (In millions of pesos)	% OF SALES TO TOTAL SALES	HIGH RISK	MIDDLE RISK	LOW RISK	Total
Over 40%	6	60%	174.78	50%	3		3	6
Over 35% up to 40%	0	0%						
Over 30% up to 35%	0	0%						
Over 20% up to 30%	0	0%						
Over 10% up to 20%	3	30%	155.46	44%	2	1		3
Below 10%	1	10%	22.54	6%		1		1
Total	10	100%	352.77	100%	5	2	3	10
PERCENTAGE TO TOTAL RESPONDENTS					50%	20%	30%	100%
ESTIMATED REVENUE LOSS for INCOME TAXES					2.97	0.30	-	3.27
						3.27 M		

VALUE-ADDED TAX (VAT): benchmark is 6.04%

GROSS PROFIT RANGE (Business Performance)	NO. OF RESPONDENTS	% TO TOTAL RESPONDENTS	VAT SALES (In millions of pesos)	% OF SALES TO TOTAL SALES	HIGH RISK	MIDDLE RISK	LOW RISK	Total
Over 40%	6	60%	174.78	50%	1	2	3	6
Over 35% up to 40%	0	0%	-	0%				
Over 30% up to 35%	0	0%	-	0%				
Over 20% up to 30%	0	0%	-	0%				
Over 10% up to 20%	3	30%	155.46	44%	1	1	1	3
Below 10%	1	10%	22.54	6%			1	1
Total	10	100%	352.77	100%	2	3	5	10
PERCENTAGE TO TOTAL RESPONDENTS					20%	30%	50%	100%
ESTIMATED REVENUE LOSS for VALUE-ADDED TAXES					8.66	3.12	0.10	11.87
						11.87 M		

FIGURE 7

4. Notice to Taxpayer.

In view of the established standard rate of tax compliance or the benchmark, the RDOs may now proceed to notify taxpayers who fall below the benchmark that they should rectify their tax returns and improve their tax compliance. Please see letter format hereof (marked as Annex "C"). The format with the sequential control number for the notification letters shall be as follows:

- 01-001-09-001, where the
  a) First two (2) digits represents the Revenue Region
  b) Next three (3) digits represents the Revenue District Office Number
  c) Next two (2) digits is the year of notification

d) Next three (3) digits refers to the control number of the Notice in the district

The RDOs shall ensure that all information are correct and the benchmark data were thoroughly reviewed and validated as against the return/information obtained per taxpayer before sending out the notification letters. The Notice to be sent to the taxpayers is not a notice of investigation that will bar the taxpayer from amending his return. However, within fifteen (15) days from receipt of said Notice, the taxpayer must explain fully in writing its failure to measure up in compliance with set industry benchmark. Failure to satisfactorily establish its reasons, the taxpayer may be issued a Letter of Authority or be subject to other enforcement activities.

5. Evaluate Taxpayers' Response/Reactions.

The RDO must evaluate the reasons put forward by the taxpayers in its response. Based on this evaluation, the RDO should make a recommendation whether taxpayer should be subjected to enforcement activities, issued an electronic Letter of Authority (eLA) or not.

6. Analyze and Prepare Reports and Recommendation.

Evaluation involves a risk to revenue analysis. Thus, a proper report by the Revenue District Officer to the Regional Director or by the has to be made with conclusions, whether taxpayer fall under the high-risk, middle- or low-risk category bracket. Reports should likewise include recommendations for proper enforcement actions such as immediate issuance of Letter of Authority, if none has been issued yet, conduct of Post Evaluation on CRM/POS Machines, placing establishment under surveillance, or conduct of inventory stock taking.

7. Enforcement Actions – Assess and Collect Deficiency Taxes.

The conduct of Oplan Kandado or Inventory Stock Taking, as the case maybe, will almost always trigger the issuance of Letters of Authority. Audit activities and processes embodied under Revenue Regulations No. 12-99 are to be complied with in coming up with assessment notices.

8. Evaluate, Compare & Adjust the Final Benchmark.

Under this stage, comparison of the initially benchmarked data under Cycle 3 must be compared for purposes of computing the revised benchmark under Cycle 9. The results of evaluation may either be a downtrend benchmark or an uptrend benchmark revision.

9. Revise Benchmark.

The Committee shall come up with the "schedule benchmark" by line of industry in every audit division (LTS), regional and district offices. Areas with low compliant taxpayers must be identified and monitored. The Audit Division Chiefs/Revenue District Officers and Regional Directors shall use the scheduled benchmark as a tool in classifying taxpayers as high risk, middle risk or low risk taxpayers. These revised benchmarks should serve as a guide to improve voluntary compliance.

10. Monitor the activities and accomplishments on benchmarking. Prepare and submit the reports in soft copies (MsExcel format) as provided under paragraph V hereof.

11. Periodically review the statistical method utilized to arrive at the benchmarks. Recommend the revision of benchmark and/or method or strategies, if necessary.

12. Considering the unique characteristics of taxpayers covered by the Large Taxpayers Service, the following additional steps should be undertaken, when applicable, to wit:

12.1. From the groupings by industry, classify taxpayers as 'old existing' and 'newly enlisted' taxpayers;

12.2. For the old taxpayers, proceed with the process of tax profiling; for those under the newly enlisted taxpayers, compare their VAT & IT compliance with the initial benchmark;

12.3. Newly enlisted taxpayers whose VAT & Income Tax (IT) compliance are below benchmark shall be issued with benchmark notices requiring them to upgrade/enhance their tax payments. Those who will not improve given enough time to do so shall be subjected to tax enforcement activities.

V. Reporting Requirements

To ensure success in this Program and to monitor the effectiveness of its implementation, the following data and/or reports are hereby required to be submitted by the LTS (Audit Divisions and LTDOs), Regional and District offices, to wit:

Report Name	*Reference*	*Revised Due Date*	*Where to Submit*
1. Data Profiling	Annex "A"	CY2010 ITR/VAT – March 15, 2012 CY2011 ITR/VAT – May 30, 2012	Benchmarking Committee thru Chairman, DCIR Operations Group
2. Approved Benchmark Rates	Annex "B"	Every 10th day of the month	CIR
3. Benchmark Evaluation	Annex "B-1"	- do -	- do -
4. Benchmarking Notice	Annex "C"	- do -	- do -
5. Monthly Abstract of Benchmarking Notice Sent (BNS)	Annex "C-1"	Every 10th day of the month	DCIR - Oper. Group, Project Directors, Benchmarking Committee
6. Monthly Status of BLNS	Annex "C-2"	Every 10th day of the month	- do -
7. Quarterly Compliance Monitoring - Corporate Taxpayers - Individual Taxpayers	Annex "D" Annex "E"	30th day after end of the Quarter	DCIR – Operations Group
8. Regional Consolidated Monthly Report for Inputs to Benchmark Revision	Annex "F"	Every 10th day of the month	-do -
9. Audit Report for Benchmark Revision	Annex "F-1"	Every 10th day of the month	-do -

VI. Repealing Clause

All revenue issuances inconsistent herewith are hereby repealed and/or amended accordingly.

VII. Effectivity

This Order shall take effect immediately.

(Original Signed)
KIM S. JACINTO-HENARES
Commissioner of Internal Revenue