REPUBLIKA NG PILIPINAS
KAGAWARANG NG PANANALAPI
KAWANIHAN NG RENTAS INTERNAS
Quezon City

April 20, 2006

REVENUE MEMORANDUM ORDER NO. 11-2006

SUBJECT: 2006 Audit Program for Revenue District Offices

TO : All Regional Directors, Revenue District Officers, Regional Division Chiefs and all Other Internal Revenue Officers and Employees Concerned

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I. OBJECTIVES

This Order is issued:

1. To prescribe uniform policies, guidelines and procedures in the audit of 2005 tax returns and fiscal year ending June 30, 2006 tax returns by the Revenue District Offices (RDO); and

2. To enhance taxpayers' voluntary compliance by encouraging payment of correct amount of internal revenue taxes thru quality audit of tax returns.

II. COVERAGE

This Audit Program covers investigation of 2005 internal revenue tax returns and income tax returns of fiscal period taxpayers whose taxable year ended on June 30, 2006. Except for cases involving claims for tax credit/refund, estate tax return and requests for tax clearance of taxpayers due to retirement of business, which have to be acted upon immediately, tax returns for 2004 other than those mentioned in the preceding statement, as well as prior to 2004 tax returns may be audited/investigated subject to prior approval of the Commissioner.

III. SELECTION CRITERIA

A. Letters of Authority (LAs)/Audit Notices (ANs) shall be issued only in the following cases:

1. Mandatory

1.1 Claims for income tax refund or issuance of tax credit certificate exceeding One Hundred Thousand Pesos (₱ 100,000.00), which will require the audit/investigation of all internal revenue tax liabilities for the covered period (Selection Code: ITR/ITC)

1.2 Claims for value-added tax (VAT) refund or issuance of tax credit certificate exceeding One Hundred Thousand Pesos (₱ 100,000.00), which will require the specific audit/investigation of the VAT liabilities only for the covered period (Selection Code: VTR/VTC)

1.3 Estate tax returns with other tax liabilities (Selection Code: EOT)

1.4 Estate tax returns with no other tax liabilities where the gross estate exceeds Ten Million Pesos (₱ 10,000.000.00) for Revenue Regions Nos. 5, 6, 7, 8 (Valenzuela, Manila, Quezon City and Makati), except taxpayers in RDO Nos. 35-Romblon, 36-Puerto Princesa and 37-San Jose, Occidental Mindoro and gross estate exceeding Five Million Pesos (₱ 5,000,000.00) for all other Regions, including the aforementioned RDOs (Selection Code: EST)

1.5 Request for tax clearance of taxpayers due to retirement/cessation of business with gross assets exceeding Ten Million Pesos (₱ 10,000.000.00) which will require the audit/verification of all internal revenue tax liabilities for the immediately preceding year and the year of retirement of the taxpayer pursuant to Section 52 of the Code (Selection Code: RET)

1.6 Request for tax clearance of taxpayers undergoing merger/consolidation/split-up/spin-off and other types of corporate reorganizations with gross assets exceeding Ten Million Pesos (₱ 10,000.000.00) which will require the audit/verification of all internal revenue tax liabilities for the immediately preceding year and the year of corporate reorganization of the taxpayer, specifically, those whose juridical personality will cease (Selection Code: MCS)

1.7 Taxpayers/direct exporters who filed claims for VAT credit with the Tax and Revenue Group, One-Stop Shop Inter-Agency Tax Credit and Duty Drawback Center (OSS), Department of Finance (DOF), which will require the audit of all internal revenue tax liabilities other than VAT which is being handled by the OSS Center and the DOF (Selection Code: OSS)

2. Top Priority Taxpayers

2.1 Taxpayers who are reporting/filing "No Operations" Annual Income Tax Returns (Selection Code: NOP)

Prior to the selection of the taxpayer, an ocular inspection shall be conducted to verify whether the business exists and to determine if the volume of business transactions warrants the issuance of a Letter of Authority.

2.2 Taxpayers with obvious basic tax deficiency amounting to One Hundred Thousand Pesos (₱ 100,000.00) or more based on Third Party Information (Selection Code: TPI)

2.3 Property buyers with no income tax return (ITR) filed or with ITR whose reported income does not warrant acquisition of such property, where the value of the property acquired is at least Five Million Pesos (₱ 5,000,000.00). (It is to be noted however, that this situation does not presume that taxpayer committed fraud because taxpayer may have other sources of cash or accumulated cash and income from prior years' transactions.) (Selection Code: PRO)

2.4 Local Water Districts (Selection Code: LWD)

2.5 Taxpayers with Letter Notices per recommendation of authorized revenue official following the policies and procedures under RMO No. 32-2005 as may be further amended later (Selection Code: LNS)

2.6 Taxpayers whose tax compliance falls below the established benchmarks per identified industries (Selection Code: BEN)

3. Other Priority Taxpayers where the annual gross sales/income exceeds Four Million Pesos (₱ 4,000,000.00) for Revenue Regions Nos. 5, 6, 7, 8 (Valenzuela, Manila, Quezon City and Makati), except taxpayers in RDO Nos. 35-Romblon, 36-Puerto Princesa and 37-San Jose, Occidental Mindoro and exceeds Two Million Pesos (₱ 2,000,000.00) for all other Regions, including the aforementioned RDOs, under any of the following instances:

3.1 Taxpayers who availed of Net Operating Loss Carry Over (NOLCO) (Selection Code: NOL)

3.2 Taxpayers who filed break-even returns or returns showing net loss for at least two (2) consecutive years (Selection Code: BER)

3.3 Taxpayers whose tax due/VAT payable or VAT paid for taxable year 2004 is less than that of the immediately preceding year (Selection Code: TDL)

3.4 Taxpayers with increase in assets but with reported net loss (Selection Code: INC)

3.5 Taxpayers maintaining an ending inventory of 100% or more of its gross sales during the taxable year (Selection Code: INV)

3.6 Other cases with substantial tax potential subject to the approval of the Commissioner (Selection Code: OTH)

4. Short/Specific Audit and Issue-Oriented Audit

4.1 Taxpayers with zero-rated sales and exempt sales which will require the specific audit of VAT liabilities, including input tax allocation, for the 2nd semester of taxable year 2005 (Audit/verification of 2004 VAT

returns for taxable year 2004 and 1st semester 2005 is prescribed under RMO No. 27-2005.) (Selection Code: VTS)

4.2 Withholding tax liabilities for 2005 including withholding tax on fringe benefits (Selection Code: WTH)

B. Tax Verification Notices (TVNs) shall be issued **only** in the following instances:

1. Claims for income tax refund or issuance of tax credit amounting to One Hundred Thousand Pesos (P100,000.00) and below, which will require the verification of all internal revenue tax liabilities for the covered period

2. Claims for VAT refund or issuance of tax credit certificate amounting to One Hundred Thousand Pesos (P100,000.00) and below, which will require the specific verification of the VAT liabilities only for the covered period

3. Estate tax returns with no other tax liabilities where the gross estate is Ten Million Pesos (₱ 10,000,000.00) and below for Revenue Regions Nos. 5, 6, 7, 8 (Valenzuela, Manila, Quezon City and Makati), except taxpayers in RDO Nos. 35-Romblon, 36-Puerto Princesa and 37-San Jose, Occidental Mindoro and gross estate of Five Million Pesos (₱ 5,000,000.00) and below for all other Regions, including the aforementioned RDOs

4. Claims for tax credit/refund of excise tax under Title VI of the NIRC of 1997, regardless of amount

5. Claims for tax credit/refund on erroneous/double payment of taxes, regardless of amount

6. Taxpayers who are retiring from business with gross assets of Ten Million Pesos (₱ 10, 000,000.00) and below

7. Protested cases/cases for reinvestigation

IV. POLICIES AND PROCEDURES

1. The Revenue District Officer shall draw a list of taxpayers selected for audit under Sections III.A.2, A.3 and A.4 above, following the format prescribed under Annex A of the Revenue Memorandum Order (RMO) Prescribing the Guidelines and Procedures in the Implementation of the Letter of Authority Monitoring System (LAMS).

2. The Revenue District Officers shall submit the list to the Regional Director, through the Chief, Assessment Division, for approval/disapproval, copy furnished the Assistant Commissioner, Assessment Service (ACIR-AS). The Assessment Service (AS) may review and evaluate the list to determine compliance with the guidelines set in selecting the taxpayers for audit and in the distribution of cases.

If upon evaluation of the submitted list it is found out that a violation has been committed, the ACIR, AS may order the cancellation of the LA.

3. For taxpayers to be audited falling under the mandatory category enumerated under paragraph III.A.1, except III A.1.1.7, the concerned Revenue District Officer shall submit a request for issuance of LAs to the Regional Director indicating therein the name of taxpayer, TIN, selection code, case classification, RO to be assigned to audit and Group Supervisor.

4. For taxpayers falling under paragraph III A.1.1.7, the Assessment Service shall inform the concerned Regional Director on the names of the taxpayers with filed claims for VAT credit with the OSS for issuance of the corresponding LAs.

5. All LAs/ANs shall be prepared, approved and signed by the Regional Director unless otherwise directed by the Commissioner. The Regional Director shall not issue LAs/ANs on tax returns that do not match the selection criteria outlined in this Order unless prior written approval is secured from the Commissioner. For this purpose, a written justification for the request to audit a particular taxpayer or group of taxpayer shall be submitted by the Regional Director to the Commissioner, through the DCIR-OG, for approval.

6. The Regional Director shall issue the LA only when the duplicate copy of the tax returns of the taxable year to be covered by the LA is attached thereto.

7. Taxpayers who have been examined for the prior year shall not be investigated for the immediately succeeding period by the same Revenue Officer and/or Group Supervisor except cases mentioned in paragraph IV.9 or when there is only one Group Supervisor or at most four (4) Revenue Officers in one district.

8. The concerned Revenue District Office shall refer the following cases to the Special Investigation Division:

    8.1 Taxpayers with substantial reduction in gross sales/receipts/tax payments and/or substantial increase in costs of sales and expenses. For this purpose, the phrase "with substantial reduction in gross sales/receipts/tax payments" will mean more than thirty percent (30%) reduction in current year's gross sales/receipts/tax payments from that of the immediately preceding year while "with substantial increase in cost of sales and expenses" will mean more than thirty percent (30%) increase in claimed costs of sales and expenses of the immediately preceding year with no corresponding increase in the reported sales;

    8.2 Taxpayers found understating the correct sales/income by more than 30% as a result of authorized surveillance/stocktaking/tax mapping activities and third party information

8.3 Taxpayers who are identified through the Tax Compliance Verification Drive (TCVD) as consistent violators of non-issuance of receipts/invoices, etc. as recommended by TCVD Coordinators

For this purpose, a taxpayer is considered "consistent violator" if he has a record of at least three (3) offenses against registration, invoicing and bookkeeping requirements.

9. The policy on the simultaneous investigation of all liabilities of the taxpayer shall be followed. One LA/TVN shall be issued for each taxable year or period to include all internal revenue tax liabilities of the taxpayer.

9.1 For estate tax cases with other tax liabilities, three (3) separate LAs shall be issued as follows: one for the estate tax liability, one for other tax liabilities covering the year immediately preceding the death of the taxpayer, and another LA for other tax liabilities covering the short period return. One RO shall be assigned to handle the estate tax liability as well as the other internal revenue tax liabilities of the immediately preceding year and short period return.

9.2 In the issuance of LA/TVN covering the audit/verification of tax liabilities of taxpayers retiring from business, two separate LAs/TVNs shall be issued to the same RO for the audit/verification of the immediately preceding year tax returns and the short period returns.

10. The Certificate Authorizing Registration (CAR) for estate tax cases covered by LAs shall be issued only after the review by the Assessment Division and approval of the Regional Director of the reports of investigation and payment of deficiency tax(es), if any. Thus, the Revenue District Officer must see to it that the tax dockets on estate tax cases with LAs are transmitted immediately to the Assessment Division for review.

11. The Assessment Division shall review estate tax cases covered by LAs within five (5) days from receipt of the docket. For cases covered by TVNs, review of the case must be completed within two (2) days from receipt thereof. Thereafter, the docket shall be transmitted immediately to the Regional Director for approval.

For estate tax cases covered by TVNs, the policies and procedures on CAR issuance as provided in RMO No. 15-2003 shall be maintained.

12. No CAR on estate tax cases covered by LAs shall be issued by Revenue District Officer unless the approved tax docket has been officially transmitted to him by the Chief, Assessment Division. Subsequently, the approved tax docket shall be transmitted to the Regional Administrative Division for safekeeping.

13. The Revenue District Officer shall provide the Assessment Service a report on the onerous acquisition of real properties where the value of the property acquired

is Five Million (₱ 5,000,000.00) and above. The following information shall be indicated in the report:

13.1 Name, Address and TIN of Seller
13.2 Name, Address and TIN of Buyer
13.3 Date of Transaction
13.4 Certificate Authorizing Registration (CAR) Number
13.5 Date Issued
13.6 Details of the Property

13.6.1 Area
13.6.2 Location
13.6.3 Zonal Value
13.6.4 Fair Market Value per Tax Declaration
13.6.5 Selling Price
13.6.6 Taxable Base

13.7 Capital Gains Tax Paid
13.8 Documentary Stamp Tax Paid

14. The practice of issuing mission orders, correspondence letters, referral memoranda or any other similar orders for the purpose of audit examination and assessment of internal revenue taxes is hereby strictly prohibited. However, this excludes orders for purposes of surveillance, stocktaking, TCVD or any similar purpose, which will however, require prior clearance from the Commissioner, through the Regional Director.

15. Only Revenue Officers–Assessment Group shall be authorized to conduct audit and investigation of tax cases, whether in a principal or assisting capacity.

16. The initial workload of every RO under this program shall be twenty (20) cases, except for cases under mandatory audit, cases covered by TVNs and LN cases which are automatically converted to LAs. In no case shall the number of cases handled by a RO exceed twenty (20) cases at any one time, subject to replenishment after the submission of the report of investigation/closure of each case.

17. Cases to be covered by LAs/ANs shall be classified according to either gross assets or gross sales/receipts as of the end of the applicable taxable period based on the following:

Case Classification	Gross Sales/Receipts	or	Gross Assets
Small	Not more than P 5,000,000.00		Not more than - P 10,000,000.00
Medium	P5,000,000.01 -P 50,000,000.00		P 10,000,000.01 - P100,000,000.00
Large	P50,000,000.01– P100,000,000.00		P100,000,000.01 – P 400,000,000.00
Very Large	Over - P100,000,000.00		Over - P400,000,000.00

18. The concerned Revenue District Officer shall see to it that the cases are equally and fairly distributed among the ROs under his jurisdiction. As much as possible, the number of ROs, tax returns to be investigated and the case classification should be considered in the assignment of cases.

19. Each LA/AN is counted as one case of the RO assigned to the case except for LA/AN assigned to a group of ROs, which shall be counted to the lead examiner only.

20. All pending cases covered by LAs/ANs as of the effectivity of this Order shall be counted as part of the initial workload of the RO.

21. The RO shall not be given additional LA/AN or TVN if he has case/s that remain unreported beyond the prescribed period to report the case, including revalidated LAs, even if he has not reached the maximum workload allowed in this Order.

22. Old cases pending (e.g. prescribing cases) in the hands of ROs, heads of investigating offices or heads of the Legal Division in violation of applicable rules and orders, shall be subjected to investigation/verification and the revenue personnel involved may be the object of appropriate sanctions/penalties.

23. Cases returned after review by the Chief, Assessment Division, the Regional Director, or any head of office in the National Office, whenever applicable, for compliance with certain documentary audit requirements or for further conduct of audit to meet some procedural requirements, shall be considered as an addition to his existing workload upon receipt of the returned case or docket. In case the RO's workload exceeded the maximum allowable limit of twenty (20) cases upon his receipt of the returned cases upon review by higher authority, the excess thereon shall not be considered as a violation of this Order. However, if the number of his returned cases is more than three (3) at any one time, the RO shall not be assigned new cases even if his pending inventory is less than twenty (20) cases. Returned cases requiring compliance with certain review requirements shall be acted upon and returned to the Chief, Assessment Division within thirty (30) days from receipt of the docket from the reviewing office. This shall be strictly observed in order to ensure the conduct of quality audit and that top priority action shall be given by the concerned Revenue Officer on these returned cases

    In addition, cases returned to the RO by the Legal Division for continuation of audit/investigation after rendering the desired resolution/opinion on certain legal issues shall likewise be considered as part of his pending inventory or workload.

24. The Legal Division shall act on cases referred by the Revenue District Offices and Assessment Division for issuance of Subpoena Duces Tecum or resolution of legal issues within thirty (30) days from receipt of the docket.

25. The Chief of the Assessment Division shall prepare a semi annual report on the number of approved reports of investigation upon review by the Office of the Assessment Division/Office of the Regional Director. The report shall be submitted to the ACIR, Assessment Service, copy furnished the Regional Director, not later than fifteen (15) days following the end of the semester. The said report shall contain the following information:

    25.1 Name of Revenue Officer
    25.2 Name of Group Supervisor
    25.3 Number of Reviewed Cases
    25.4 Number of Approved Cases
    25.5 Number of Returned Cases

26. Cases for reinvestigation/protested cases shall not be assigned to the same RO who handled the original investigation.

27. Reports of investigation of all cases covered by LAs/ANs/TVNs shall be submitted by the RO within the following prescribed number of calendar days from the date of LAs/ANs/TVNs:

Case Classification	No. of Days
Cases other than VAT claims for refund/credit :	
Very Large	120
Large	90
Medium	60
Small/TVN	30
Cases covering claims for VAT refund/credit	120 days from the submission of complete documents

28. The official duplicate copies of tax returns not selected for audit shall be stored and arranged chronologically at the Administrative Section of the Revenue District Office by taxable year, but filed alphabetically by taxpayer, one section for corporate taxpayers, another section for individual taxpayers, for facility and ease of retrieval.

29. ROs under the Assessment Group with issued Revenue Travel Assignment Orders shall not be allowed to report to their new assignment without the proper clearance pursuant to RMO No. 5-2006. For those who fail to report their cases to secure their clearance, the Revenue District Officer of the concerned office shall recommend these ROs to undergo a retraining course in the National Office for one (1) year. The recommendation shall be submitted to the Assistant Commissioner- Assessment Service, through the Regional Director.

30. Any violation of the foregoing instructions by any revenue officer or official shall be a ground for the imposition of appropriate administrative sanctions/penalties.

31. All applicable guidelines and procedures under the existing revenue issuances not inconsistent herewith shall be strictly observed by all concerned, unless amended by latter issuances.

32. For offices where the LA Monitoring System (LAMS) is already rolled out, the concerned offices shall encode the LAs issued and update the status of the said LAs in the LAMS.

V. REPORTING REQUIREMENTS

The following reports are required for submission to the Assessment Service every 10th of the month:

1. For Regional Directors

   1.1 Monthly List of Letters of Authority(LAs)/Audit Notices(ANs) Issued (Annex A)

   1.2 Monthly Report of Tax Credit/Refund Approved and Granted (Annex B)

2. For the Revenue District Officers

   2.1 Monthly Report of Tax Verification Notices (TVNs) Issued (Annex C)

   2.2 Monthly Status of Letters of Authority Issued and Acted Upon (Annex D)

   2.3 Monthly Summary of Assessment and Collection Activities (Annex E)

   2.4 Monthly Report of Cases Verified, Processed and Closed Covered by Tax Verification Notices (Annex F)

   2.5 Monthly Report on Claims for Tax Refund/Issuance for Tax Credit Certificate Filed (Annex G)

   2.6 Monthly Report of Tax Credit/Refund Processed (Annex H)

   2.7 Monthly Report on Acquisitions of Real Properties Valued at Five Million (₱ 5,000,000.00) and above (Annex I)

   The RDOs shall furnish the concerned Regional Directors with a copy of the abovementioned reports.

3. Reports prescribed under RMO No. 67-99 shall continuously be submitted to the Assessment Service:

3.1 For Regional Directors

- Regional Accomplishment Report on Assessment Activities

3.2 For Chiefs, Assessment Division

- Monthly Report on Cases/Dockets Received from Investigating Offices for Review
- Monthly Report on Reviewed Cases
- Monthly Summary of Taxes Assessed
- Approved Duplicate Copy of BIR Forms 0500 Series

In addition to the abovementioned reports, the Regional Director shall submit the Performance Rating of the Revenue Officers, Group Supervisors, Assistant Revenue District Officers and Revenue District Officers, which shall be prescribed in a separate revenue issuance, to the DCIR-Operations Group, copy furnished the ACIR-Assessment Service.

VII. REPEALING CLAUSE

All issuances inconsistent herewith are hereby modified or repealed accordingly.

VIII. EFFECTIVITY

This Order shall take effect immediately

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

I-1