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

September 15, 2015

REVENUE MEMORANDUM ORDER NO. 19 – 2015

SUBJECT: BIR Audit Program

TO: All Internal Revenue Officers and Officials

I. OBJECTIVES

This Order prescribes the policies, guidelines and procedures to be observed in the audit/investigation of tax returns to enhance taxpayers' voluntary compliance by encouraging the correct payment of internal revenue taxes through the exercise of the enforcement function of the Bureau.

II. AUDIT/INVESTIGATION OF TAXPAYERS

In general, all taxpayers are considered as possible candidates for audit. To cover such audit/investigation of taxpayers, electronic Letters of Authority (eLAs) shall be issued. The said audit/investigation shall include, but not limited to, the following cases:

1. Mandatory Cases

   1.1 Taxpayers with claims for income tax refund or issuance of tax credit certificate (Selection Code: ITR for income tax refund and ITC for tax credit certificate)

   1.2 Taxpayers with claims for Value-Added Tax (VAT) refund/credit (Selection Code: VTR for VAT refund and VTC for VAT credit certificate)

   1.3 Claims for tax refund/credit of excise tax under Title VI of the Tax Code, as amended, regardless of amount (Selection Code: ETRS for excise tax refund and ETCS for Excise tax credit certificate)

   1.4 Claims for tax refund/credit on erroneous/double payment of taxes, regardless of amount (Selection Code: ERTR claims for tax refund and ERTC for claims for tax credit certificate)

   1.5 Request for tax clearance of taxpayers due to retirement/cessation of business with gross sales/receipts exceeding ₱ 1,000,000.00 or gross assets exceeding ₱ 3,000,000.00 (Selection Code: TRC)

   1.6 Request for tax clearance of taxpayers undergoing merger/consolidation/split-up/spin-off and other types of corporate reorganizations (Selection Code: TMC)

   1.7 Cases with unresolved Letter Notices (LNs) (Selection Code: LNA)

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

1.9 Policy cases covered by written directive of the Commissioner (Selection Code: CIR)

2. Priority Taxpayers/Industries - Unless revised through the issuance of a Revenue Memorandum Order (RMO), the tax returns to be audited shall be based on the following criteria:

		Selection Code
2.1	Taxpayers mandatorily covered to file their returns using eFPS or eBIRForms under existing revenue issuances but failed to use the same	EFP
2.2	Taxpayers maintaining an ending inventory of 100% or more of their gross sales	INV
2.3	Issue-oriented audits (e.g., transfer pricing, Base Erosion Profit Shifting (BEPS), industry issues, etc.)	IOA
2.4	Taxpayers whose compliance is below the established benchmark rate	BEN
2.5	Taxpayers who have failed to comply with the submission of information returns required under existing revenue issuances (e.g., Alphalist, Inventory List, List of Tenants, SLS/P, eSales)	INF
2.6	Taxpayers enjoying tax exemptions/incentives	INC
2.7	Taxpayers which were placed under surveillance, Oplan Kandado and other enforcement programs of the Bureau	ENF
2.8	Taxpayers reporting gross/net loss or no taxable income or no tax due for two (2) consecutive years	LOS
2.9	Government agencies with validated "due to BIR" per COA report	COA
2.10	LGUs engaged in proprietary activities or LGUs who fail to remit taxes withheld regularly	LGU
2.11	Taxpayers with income tax due of less than 2% of gross sales/revenues	LOW
2.12	Taxpayers with increase in assets of more than fifty percent (50%) from the previous year but with reported net loss	ASS

2.13	Taxpayers with claims for losses/damages due to natural calamities or those claiming inventory obsolescence	CLD
2.14	Taxpayer deriving its revenue/income exclusively or substantially from its parent company/ subsidiaries/ affiliates	PSA
2.15	Taxpayers claiming write-off of input tax as allowable deduction in its annual income tax returns	CWO
2.16	Taxpayers with shared expenses and other interrelated charges being imputed by a parent company to its affiliates and likewise an affiliate to other affiliate in a conglomerate	EPA
2.17	Professionals (e.g. lawyers, doctors, engineers, architects, CPAs, actors/actresses, media personalities, professional athletes, insurance agents, real estate service practitioners, event planners, etc.) with low income and/or business tax compliance	PRO
2.18	Real estate industry	REA
2.19	Telecommunications industry (TELCOS)	TEL
2.20	Contractors of National Government Agencies (NGAs), Local Government Units (LGUs) and Government Controlled Corporations	CON
2.21	Sellers of goods and services via e-commerce	ECO
2.22	Hospitals, Clinics, Medical/Dental Laboratories	MED
2.23	Amusement/Entertainment/Event Centers	AEE
2.24	Advertising Agencies	ADA
2.25	Business Processing Outsourcing Companies	BPO
2.26	Insurance Companies	INS
2.27	Restaurants/Fast Food Chains/Catering Services/Bars/Coffee Shops	RES
2.28	Taxpayers with zero-rated sales	ZRS
2.29	Taxpayers with intelligence information such as specific business knowledge, third party data and publicly available information (e.g., from media press releases vs. actual revenue/tax declaration per return, etc.)	TPI

3. Other priority audit that may be identified by the Regional Director (RD)/Asst. Commissioner, Large Taxpayers Service (ACIR-LTS):

a. RD's/Revenue District Officer's (RDO) Other Audit Priority (Selection Code: RDO)

b. ACIR-LTS/Chief, LT Division's – Makati & Cebu (LTD)/Chief, LT Audit Division's (LTAD) Other Audit Priority (Selection Code: ACR)

(The above Officials are not precluded in selecting taxpayers which do not fall within the foregoing criteria but may be possible candidates under other priority audit.)

The tax returns to be selected for item numbers II.2 to 3, for regional tax cases, shall consist of 60% TAMP and 40% non-TAMP taxpayers of the Revenue District Office.

III. POLICIES AND PROCEDURES

1. The RDO and RD/LTD, LTAD and ACIR-LTS are equally responsible in ensuring that only returns of taxpayers registered within their jurisdiction and those that match the selection criteria of this Order are selected for issuance of eLAs. Otherwise, they shall be subject to administrative sanctions.

2. Any deviation, except those selected under Item II.3 hereof, shall require a request with a written justification to be submitted by the RD to the Deputy Commissioner-Operations Group (DCIR-OG) for regional cases, and ACIR-LTS to the Commissioner for LT cases. A copy of the request approved by the DCIR-OG shall be furnished to the Assistant Commissioner, Assessment Service (ACIR-AS) for monitoring purposes. The Selection Code to be assigned to cases under this category shall be "OUT".

3. The RDO/LTD/LTAD shall prepare two (2) lists of taxpayers who have not been audited, to wit:

   3.1 Taxpayers who have been in operation for more than three (3) years up to five (5) years; and

   3.2 Taxpayers who have been in operation for more than five (5) years.

   At any given time he/she shall make sure that each RO should have a case load coming from either of the two (2) lists above, whether or not any of the selection criteria under Item II.2 has been met. The Selection Code for cases within these lists shall be "LST".

4. If the taxpayer has been audited for the last two (2) years and has been again selected for audit on the current or 3rd year, the RDO/LTD/LTAD shall submit a written explanation to the Commissioner, copy furnished the DCIR-OG for Regional cases, as to why such taxpayer shall be subjected to audit for three (3) succeeding years, unless the RDO/LTD/LTAD has established that such taxpayer has an under declaration of sales/income or overstatement of expenses/deductions by at least 30% (prima facie evidence of fraud). Cases selected under this policy shall have a Selection Code of "FRD."

   The deficiency assessment on these cases should be imposed a fifty percent (50%) surcharge.

5. Discrepancies or audit/review findings arising from taxpayers with filed claims for VAT refund/credit referred by the VAT Credit Audit Division (VCAD) or Tax Audit

Review Division (TARD) should be evaluated by the RDO/LTD/LTAD to determine any tax implications. The RDO/LTD/LTAD may select the taxpayer-claimant for issuance of eLA, if necessary. However, if the taxpayer-claimant is already the subject of an existing eLA for the same taxable year covered by the claim, the audit/review findings should be consolidated with the existing eLA/case. A copy of the narrative memorandum report on these cases should be transmitted by the RDO to the ACIR-AS for regional cases, and by the LTD/LTAD to the ACIR-LTS for LT cases, on or before the 10th day of the month following the submission of the report of investigation by the RO.

6. The Electronic Letter of Authority Monitoring System (eLAMS) shall be used in the request, approval and issuance of eLAs, as well as in updating the status of the same, until the Case Management System (CMS) of the enhanced Tax Information System (eTIS) is rolled-out in the National, Regional and District Offices.

7. Electronic Memorandum of Assignment (eMOA) thru eLAMS shall be issued for the following cases:

   7.1 Reassignment for the continuation of the audit/investigation of a case to another Revenue Officer (RO) due to resignation/retirement/transfer of the original RO;

   7.2 Assignment to the original RO of returned cases by the reviewing office or reassignment to another RO of returned cases in case of resignation/retirement/transfer of the original RO;

   7.3 Reassignment to another RO due to referral of the case to another investigating office [e.g. cases referred to Regional Investigation Division (RID), National Investigation Division (NID)]; and

   7.4 Protested cases/cases for reinvestigation.

8. As a general policy, the simultaneous investigation of all liabilities of the taxpayer shall be followed. One (1) eLA shall be issued for each taxable year or period to include all internal revenue tax liabilities of the taxpayer, except when a specific tax type had been previously examined (e.g., audit of VAT under VAT Audit Program and VAT arising from claim of tax refund/credit).

9. Except for eLAs issued under the RATE Program of the National Office or Regional Office, only Revenue Officers–Assessment Group shall be authorized to conduct audit and investigation of tax cases, whether in a principal or assisting capacity. The same RO and/or Group Supervisor (GS) shall not be assigned in the current year with the same taxpayers who have been examined for the prior year, except when there is only one GS or at most four (4) ROs in one district/investigating office.

10. Notwithstanding the policies in Items III.8 and 9 above, eLAs shall be issued for the following tax cases:

    10.1 Specific audit of claims for VAT refund or issuance of TCC wherein one eLA shall be issued for each taxable period/quarter of claim. The same RO may be assigned for two (2) or more taxable quarters provided the quarters covered are for the same taxable year.

10.2 In the issuance of eLA covering the audit of tax liabilities of taxpayers retiring from business, one (1) eLA shall be issued for the audit/investigation of the internal revenue tax liabilities covering the immediately preceding year and the short period return. However, the RO assigned to the case shall prepare two (2) separate reports, one for the immediately preceding year, and another on the results of the audit/investigation for the short period return.

Taxpayers who are retiring from business with gross sales/receipts amounting to ₱ 1,000,000.00 and below or gross assets not exceeding ₱ 3,000,000.00 shall no longer be verified/investigated.

10.3 For estate tax cases with other tax liabilities, two (2) separate eLAs shall be issued to the same RO, one (1) for the estate tax liability and a separate eLA covering the audit of other tax liabilities for the year immediately preceding the death of the taxpayer and the short period within the year up to the death of the decedent. The RO shall prepare three (3) separate reports: 1) for the estate tax liability, 2) for the other tax liabilities covering the immediately preceding year and 3) for the short period return.

For estate tax cases where the decedent has no other tax liabilities, a Tax Verification Notice (TVN) shall be issued irrespective of the amount of gross estate as prescribed in Item No. III.5 of RMO No. 69-2010.

11. The concerned RDO/LTD/LTAD shall see to it that the cases, including mandatory cases, are equally and fairly distributed among the ROs taking into consideration the capability of each RO.

The eLAs for assignment to each RO-Assessment shall be a maximum of thirty (30) cases, not counting mandatory cases, at a given time subject to replenishment upon the submission of the report of investigation/closure of each case. However, no RO shall be given the maximum workload of 30 cases if there are other ROs who have not been assigned the same number of cases.

12. The RDO/LTD/LTAD may assign more than one RO to conduct the audit, and all the names of the RO must be indicated in the eLA.

13. Each eLA is counted as one case of the RO assigned to the case except for eLA assigned to a group of ROs, which shall be counted as a case attributable to the lead examiner only. The lead examiner is the examiner first listed in the eLA. Nevertheless, deficiency assessment/collection on the case shall equally credited among all the ROs indicated on the eLA.

14. No new eLA shall be assigned to an RO who has -

14.1 Pending workload of 30 or more eLAs; or

14.2 Ten (10) or more prescribing/prescribed cases; or

14.3 No office clearance as required under existing revenue issuances; or

14.4 More than ten (10) returned dockets which have not been acted upon for more than fifteen (15) days from receipt of the docket; or

14.5 Case(s) of claims for tax refund/credit held for more than the prescribed number of days to submit the report; or

14.6 Other mandatory case/s already outstanding for more than 180 days.

15. The RDO/LTD/LTAD is primarily responsible in performing the following tasks:

15.1 Strict implementation of the policy on the assignment/replenishment of cases;

15.2 Monitoring of ROs' workload and status update of cases in eLAMS and eTIS, where applicable;

15.3 Ensuring that all ROs listed in the eLA have specific assignments and output; and

15.4 Review of the aging of inventory of cases and enforcement of the immediate completion of long overdue cases by way of issuance of call-up memorandum and possible referral to the Internal Investigation Division.

16. Cases returned after review by the Chief, AD, the RD/Head Revenue Executive Assistant (HREA), ACIR-LTS 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. These returned cases requiring compliance with certain review requirements shall be acted upon by the RO and returned by the RDO to the Chief, AD, RD/HREA, ACIR-LTS or any head of office in the National Office within fifteen (15) days from receipt of the docket from the reviewing office. This shall be strictly observed in order to ensure that top priority action shall be given by the concerned RO on these returned cases.

17. Cases referred to the Legal Division in the Regional Offices/Legal Service in the National Office shall be removed from the inventory of the concerned RO for purposes of replenishment of cases. The Legal Service, Legal Division or any other authorized office shall act on the request of the RDO/LTD/LTAD within ten (10) calendar days from receipt of such request.

However, once the case is returned to the RO for continuation of audit/investigation, this shall be considered as part of his inventory or workload. If such returned cases result to an excess over thirty (30) cases, this situation will not be considered a violation.

18. Cases returned for reinvestigation may be acted upon by the original RO assigned to the case, except when the original RO is no longer assigned in the investigating office.

19. All investigating ROs shall submit to the RDO/LTD/LTAD an inventory of pending cases with eLAs as of September 30, 2015, which shall be consolidated by the RDO/LTD/LTAD for submission to the Assessment Performance Monitoring Division (APMD) under the AS for Revenue Regions and the LT Performance Monitoring and Programs Division (LTPMPD) for LTS not later than October 15, 2015. The consolidated list to be submitted shall be in soft copy using the Microsoft Excel format prescribed in Annex "A" hereof.

20. In requesting documents to be presented during tax investigation, the RO shall comply with RMO No. 53-98, as amended by RMO Nos. 16-2007 and 22-2007, and other applicable revenue issuances. The RO shall mark in the Checklist of Requirements only the documents/records which are applicable and relevant in the audit and should not require the taxpayer to submit tax returns and other information which can be retrieved within the Bureau.

21. If the taxpayer has been selected for regular audit under this Order and subsequently, the taxpayer becomes a candidate under the VAT Audit Program, significant findings on the audit of VAT should be communicated to the Chief – AD/Head, VAT Audit Team for possible risk identification in the current quarters.

22. If an eLA has been issued under the VAT Audit Program and subsequently, the taxpayer becomes a candidate for regular audit in the RDO/LTD/LTAD based on the selection criteria under this Order for the same taxable year, the request for eLA for regular audit shall not include the VAT liability even if the eLA issued under the VAT Audit Program is for a particular taxable quarter only.

    The head of the VAT Audit Team should transmit a copy of the VAT audit findings to the RDO/LTD/LTAD conducting the regular audit to determine their relevance and effect to other tax liabilities.

23. The RO assigned to the case shall present or serve the eLA to the taxpayer or his representative in accordance with Section 3.1.6 of RR No. 12-99 as amended by RR No. 18-2013.

24. The RO shall observe the procedures prescribed in RMO No. 26-2010 regarding the preparation of the List of Assets (BIR Form No. 0804) subject to an investigation/verification. The list shall be prepared manually until such time that a computerized system for this purpose has been in place.

25. The report of investigation/verification of cases covered by eLAs/TVNs/MOAs pursuant to this Order shall be submitted by the RO within the following prescribed number of calendar days:

Case Classification	No. of Days
Cases covered by eLAs other than claims for VAT refund/credit	180 days for Regional cases and 240 days for LT cases, from the date of the eLA
Claims for VAT refund/credit cases	60 days for Regional cases, and 80 days for VCAD and LT cases, from the date of filing of the application
TVN on Estate tax cases	60 days from submission of complete documents
MOA on ONETT cases	5 days from submission of complete documents

Case Classification	No. of Days
MOA on protested cases/reinvestigation	60 days from the submission of complete documents in case of request for reinvestigation; 60 days from the date of MOA in case of request for reconsideration

26. For VAT claims recommended by the Regional Offices the dockets should be transmitted to the Chief, AD on the 60th day and to TARD not later than the 80th day from the date of filing of the application. For those VAT claims filed in VCAD the docket of the claim shall likewise be transmitted to the TARD within the same period. Such claims shall be forwarded to the concerned approving official not later than the 20th day from receipt thereof by the TARD.

    For VAT claims filed in LTS, the dockets should be transmitted to the concerned HREA not later than the 80th day from the date of filing of the application.

27. The use of BIR Form 0500 in reporting the audit/investigation and the mandatory reporting requirements to be prepared by an RO that will comprise a complete tax docket prescribed in Annex "B" of RMO No. 53-98, as amended by RMO Nos. 16-2007, 22-2007 and Revenue Memorandum Circular (RMC) No. 29-2009, in relation to the big ticket items, shall be strictly observed by all ROs concerned.

    For eFIS-CMS users, the above form shall be accomplished online.

28. Failure on the part of the RO to render a report of investigation/verification within the time frame prescribed above shall not nullify the eLA. The eLA is enforceable even if it remains outstanding beyond the time frame for submission of report of investigation/verification by the RO assigned to the case, subject to the period of limitation under Sections 203 and 222 of the Tax Code of 1997, as amended. However, the RO who fails to submit the report investigation/verification shall be subject to any applicable administrative sanction.

29. As stated in Item Number IV.8 of RMO No. 44-2010, it is reiterated that pending eLAs as of the effectivity of the said Order shall no longer be revalidated. In case the report of investigation cannot be rendered within the prescribed period, the concerned RO shall prepare a monthly progress report starting from the time such audit report should have been rendered stating therein the reason for the delay in the submission of the report of investigation duly noted by his GS and approved by the RDO/LTD/LTAD. The said progress report/s shall be attached to the docket of the case.

30. The RDO/LTD/LTAD shall report to the ACIR, Internal Affairs Service, Attention: The Chief, Internal Investigation Division, any RO under his supervision with prescribed tax cases and long overdue cases that are still unsubmitted despite several call up letters/reminders issued by the RDO/LTD/LTAD. A statement of all the facts and other documents (e.g., memoranda issued to the concerned RO calling his attention regarding submission of required reports of investigation within the prescribed period) must be submitted together with his report, copy furnished the RD and ACIR-AS for revenue regions and the ACIR-LTS for LT.

31. A random revalida of audit cases may be conducted by the Office of the Commissioner and/or the Office designated by the Commissioner.

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

IV. REPEALING CLAUSE

All other provisions of issuances, circulars and memoranda inconsistent herewith are hereby repealed, amended or modified accordingly.

V. EFFECTIVITY

This Order shall take effect immediately.

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