REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

Quezon City

May 23, 2008

REVENUE MEMORANDUM ORDER NO. 20-2008

SUBJECT: **Prescribing the Guidelines for the Preliminary Analysis and Audit/Verification of 2007 Internal Revenue Tax Returns and the Corresponding Tax Payments for Taxpayers under the Large Taxpayers Service and Revenue Regions/Revenue District Offices**

TO : **Assistant Commissioner/Head Revenue Executive Assistants - Large Taxpayers Service (LTS), Chiefs of the Divisions under the Large Taxpayers Service, All Regional Directors, Revenue District Officers, Chiefs of the Regional Assessment Divisions, Revenue Officers and Others Concerned**

I. Objectives:

1. To provide guidelines for the establishment of benchmarks/taxpayers' profile on tax payments in relation to their gross sales/revenues/receipts; and

2. To authorize the pre-audit and issuance of Tax Verification Notices (TVNs) and Letters of Authority (LAs), Letter Notices (LNs) and Mission Orders (MOs) covering 2007 tax returns.

II. Policies

1. All heads of investigating offices shall pre-audit 2007 income and business tax returns of corporations and individuals engaged in business and practice of profession with particular emphasis on the analysis on their tax compliance in relation to their gross sales/revenues/receipts.

2. Taxpayers should be classified by industry or profession and the ratio of their tax due against their gross sales/revenues/receipts should be determined. Based on the result of the analysis showing the normal or common ratio of income tax and business tax (VAT or Percentage Tax), a preliminary profile leading to industry/profession benchmark can be established. If the tax compliance of certain taxpayers is below the normal or common benchmark within an industry/profession, their tax returns shall be selected for audit/verification.

In case there is a need to sub-classify the taxpayers within an industry group, the same should be done but the sub-classification should not be more than three in one industry or type of business. (For example, restaurants may be further classified into fine dining, fast food and ordinary canteen)

3. The computation of the ratio of tax compliance shall be as follows:

   3.1 Income Tax

   Tax Due Per Final Income Tax Return ÷ Gross Sales/Revenues/Receipts (whatever is applicable depending on the accounting method of the taxpayer)

   3.2 Business Tax

   Total Net VAT Payable for the Four Quarters (Line 25 of BIR Form No. 2550Q) ÷ Gross Taxable Sales/Revenues/Receipts (Whatever is applicable) (Line 15A of BIR Form No. 2550Q)

   Or

   Total Percentage Tax Due for the Year (Line 19 of BIR Form No. 2551M or 2551Q) ÷ Total Taxable Amount/Base (Line 14C of BIR Form No. 2551Q)

   In case there are other taxable gross sales/revenues/receipts and underdeclared income determined through third party information or other sources within and outside the Bureau, such amount should be included in the gross sales/revenues/receipts for the purpose of computing the foregoing ratios.

4. The pre-audit should also focus on the following:

   4.1 Mathematical computation of the tax due and tax payment;

   4.2 Correctness of the application of the minimum corporate income tax (MCIT) pursuant to Sec. 27 (E) and Section 28 (A)(2) of the 1997 NIRC, as implemented by Revenue Regulations (RR) No. 9-98, as amended by RR No. 12-2007, and clarified through several Revenue Memorandum Circulars;

   4.3 Validity of claims for income tax holiday, tax exemption and other claimed tax incentives which resulted to non-payment or reduced payment of tax due;

   4.4 Correctness and validity of the following deductions from gross income subject to limits under existing law and regulations:

      4.4.1 Interest expense;
      4.4.2 Contributions; and
      4.4.3 Representation expense.

4.5 Completeness and accuracy of claimed creditable withholding taxes against tax due to determine correct substantiation of claims through the certificates attached to the returns, or submitted electronically to the BIR;

4.6 Correct usage of Tax Credit Certificates which should always be supported by an approved Tax Debit Memo issued by the authorized Revenue Official;

4.7 Correct application of excess income tax carry-over or excess input tax carry-over; and

4.8 Correct application or offsetting of partial tax payments made before the due date of the tax.

5. From the results of the benchmarks established, the investigating offices shall draw a list of taxpayers for the issuance of LAs and TVNs for those whose tax compliance is below the normal or common benchmark for the industry/profession, following the threshold/rules under Items Nos. 6 and 7 hereof in the case of taxpayers under the jurisdiction of the Regional Office.

   For taxpayers under the jurisdiction of the various groups and units of the LTS, LAs shall be issued for those whose tax compliance falls below the benchmark.

6. LAs shall be issued for income and business tax returns based on the following:

   6.1 Gross sales/revenues/receipts exceeding Ten Million Pesos(₱ 10,000,000.00) for Revenue Region Nos. 5, 6, 7 and 8 (Valenzuela, Manila, Quezon City and Makati), except RDO Nos. 35 – Romblon, 36 – Puerto Princesa and 37 – San Jose, Occidental Mindoro

   6.2 Gross sales/revenues/receipts exceeding Five Million Pesos(₱ 5,000,000.00) for all other Regions, including RDOs RDO Nos. 35 – Romblon, 36 – Puerto Princesa and 37 – San Jose, Occidental

7. TVNs shall be issued for income and business tax returns based on the following:

   7.1 Gross sales/revenues/receipts amounting to Ten Million Pesos (₱ 10,000,000.00) and below for Revenue Region Nos. 5, 6, 7 and 8 (Valenzuela, Manila, Quezon City and Makati), except RDO Nos. 35 – Romblon, 36 – Puerto Princesa and 37 – San Jose, Occidental Mindoro

   7.2 Gross sales/revenues/receipts amounting to Five Million Pesos (₱ 5,000,000.00) and below for all other Regions, including RDOs Nos. 35 – Romblon, 36 – Puerto Princesa and 37 – San Jose, Occidental

8. In addition to the above cases, LAs or TVNs shall be issued by the Revenue District Offices for the following mandatory cases:

   8.1 Claims for issuance of tax credit certificate and refund, including claims for tax credit/refund on erroneous/double payment of taxes
   8.2 Estate tax returns
   8.3 Taxpayers retiring from business
   8.4 Taxpayers undergoing merger/consolidation/split-up/spin-off and other types of corporate reorganizations
   8.5 Protested cases
   8.6 Taxpayers that transferred their principal place of business in taxable year 2007

   The thresholds set in RMO No. 12-2007 shall still be the basis for the issuance of LA and TVN on the aforementioned mandatory cases under Item Nos. 8.1 to 8.5. For Item No. 8.6, the applicable threshold on Item Nos. 6 and 7 hereof shall be considered in the issuance of LA or TVN.

9. For Revenue District Offices, the other audit policies and reporting requirements prescribed in RMO No. 12-2007 that are not inconsistent herewith shall be observed by the concerned Revenue Officers and Officials until amended through another revenue issuance.

10. For the Large Taxpayers Audit Divisions and Large Taxpayers District Offices, their audit policies and reporting requirements under existing issuances applicable to their offices shall be maintained by all concerned until further amended.

III. Repealing Clause

All revenue issuances or portions thereof inconsistent herewith are hereby revoked and/or amended accordingly.

IV. Effectivity

This Order shall take effect immediately.

(Original Signed)
LILIAN B. HEFTI
Commissioner of Internal Revenue

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