Republic of the Philippines
Department of Finance
BUREAU OF INTERNAL REVENUE
Quezon City

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July 10, 2020

REVENUE MEMORANDUM ORDER NO. 21-2020

TO: **ALL INTERNAL REVENUE OFFICERS AND OTHERS CONCERNED**

SUBJECT: **PRESCRIBING THE POLICIES, GUIDELINES AND PROCEDURES FOR THE INSPECTION OR SUPERVISION OF THE DESTRUCTION / DISPOSAL AND DETERMINATION OF DEDUCTIBLE EXPENSE PERTAINING TO INVENTORY OF GOODS/ASSETS WHICH HAVE BEEN DECLARED AS WASTE OR OBSOLETE**

I. BACKGROUND

This Order is issued to revise and update the prescribed policies and guidelines in the conduct of inspection and supervision of the destruction/disposal of the inventories, machineries or equipment applied for destruction or disposal under the Large Taxpayers (LT) Office or Revenue District Office (RDO) where the taxpayer is registered, in relation to the determination of deductible expense pertaining to inventory of goods/assets which have been declared as waste or obsolete due to spoilage, deterioration, obsolescence, expiration, or other causes rendering the same unfit for sale or for use in production.

II. OBJECTIVE

To establish the policies, guidelines and procedures for the inspection and supervision of the destruction/disposal and to facilitate the processing of applications for inventory destruction/disposal.

III. DEFINITION OF TERMS

For purposes of this memorandum, the following definitions are hereby provided:

1. **Spoilage** – pertains to the condition of goods which become waste due to damage or impairment in quality caused by natural or other causes.

2. **Deterioration** – pertains to the condition wherein the goods have been determined to be waste due to damage or impairment in quality caused by corrosion, weakening or disintegration, whether by natural or other causes.

3. **Obsolescence** - pertains to the condition wherein the goods are rendered useless and outdated or have lost their value due to advances in technology, product innovation or development, or change in consumer demand.

4. **Expiration** – pertains to the condition of consumable goods that have become unfit for consumption due to the termination or lapse of its predetermined useful life.

5. **Virtual means**- mode of online communication through the use of technology available to both BIR and the taxpayer in witnessing the process of destruction or disposal.

6. **Third party**- a person recommended by the taxpayer who may either be a BIR accredited tax practitioner or external auditor, subject to BIR approval to witness the process of destruction or disposal.

IV. POLICIES AND GUIDELINES

1. The "Application for Destruction/Disposal of Goods/Assets" (Annex "A") shall be filed with and processed by the concerned Large Taxpayers' (LT) Office or Revenue District Office (RDO) where the principal place of business of the taxpayer is registered. The said application with complete documentary requirements shall be filed with the concerned Office at least seven (7) days before the proposed scheduled date of destruction/disposal of the inventories/equipment. Only applications with complete documents shall be processed by the concerned Office.

2. The BIR shall inform the taxpayer-applicant within five (5) days from receipt of application as to the approved manner of witnessing and schedule of destruction/disposal.

   If the method approved is through a third party, the BIR shall issue a letter (Annex "B") to the third party through the taxpayer within the same period. All expenses incidental to the witnessing shall be for the account of the taxpayer.

3. In the event that the destruction/disposal activity cannot be completed in one (1) day, the same may be scheduled in a manner acceptable to both the taxpayer and the BIR or BIR authorized representative until the total volume applied for has been entirely destroyed or disposed of.

4. The date of the destruction shall be scheduled on regular working days. However, destruction may be conducted on a weekend or on a non-working holiday subject to prior approval by the BIR.

5. The valuation that will be used for the inventory or assets to be disposed/destructed shall be the actual cost. Currently, where the actual cost cannot be accurately determined, the inventory valuation maintained and used by the taxpayer shall be adopted subject to adjustment upon verification during the audit. In the case of fixed assets, the carrying book value shall be considered.

6. Deduction of losses for income tax purposes arising from inventory destruction or disposal shall be allowed after witnessing in accordance with this Order and issuance of the "Certificate of Deductibility of Goods/Assets Destructed/Disposed" (Annex "C").

   The BIR shall issue the "Certificate of Deductibility of Goods/Assets Destructed/Disposed" within five (5) days from the date of submission by the

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taxpayer of the complete documents (e.g. photos and videos, inventory count sheet, etc.) of destruction/disposal.

7. In case the inventories/assets applied for disposal are for any reason or cause, are replaced/substituted by its supplier, or the taxpayer shall become entitled to reimbursement for the partial or equivalent value thereof by an insurance company, the claim for the deductibility of the value thereof shall be denied.

8. In case any discrepancy is discovered in the course of the evaluation and verification of the application for deductibility, and that it was determined that the taxpayer has already claimed such deductions for income tax purposes, the taxpayer shall be subjected to mandatory audit.

   Any scrap or salvage value as may be subsequently determined shall be declared as other income.

9. The corresponding reports bearing on the results of inventory destruction as well as the "Certificate of Deductibility of Goods/Assets Destructed/Disposed" shall be approved by the ACIR-LTS or Regional Director, which may be delegated in writing to the Division Chiefs of the LT Office/RDO having jurisdiction over the applicant-taxpayer.

10. Destruction/disposal of goods, products and articles subject to Excise Tax shall be witnessed/validated by the authorized BIR official from the Excise Tax Divisions of the LTS.

V. PROCEDURES

A. The Taxpayer shall:

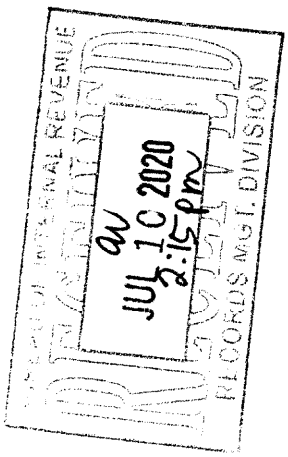
1. File the " Application for Destruction/Disposal of Goods/Assets" in duplicate copies together with the documents listed hereunder at least seven (7) days before the scheduled date of destruction/disposal of the inventories/equipment:

   a. Sworn Declaration of Goods/Assets as Waste or Obsolete (Annex "D"), including the statement that the loss in value of these goods is subject neither to subsequent replacement/payment by the supplier thereof nor to reimbursement from any insurance company. However, in case the declarant is not the actual owner but only the duly authorized representative of the actual owner, the sworn declaration shall specifically mention the following:

      i. That the taxpayer he represents is the lawful owner of the certain goods that were produced or acquired for value but were nevertheless damaged or rendered obsolete;

      ii. That the taxpayer he represents intends to effect the destruction thereof on a particular date at a specific location.

   b. List of Goods/Assets for Destruction/Disposal (Annex "E"), List of Machineries/Equipment for Destruction/Disposal (Annex "E-1"), as the case may be.



c. Letter of intent that he is considering to avail the services of a third party as witness in the process of destruction/disposal and providing the name thereof.

d. Inventory List of Goods duly received by the BIR.

e. Supporting documents to prove the reasons stated in this application as the cause for the destruction/disposal.

f. Other documents to prove the correctness of the value of the goods/assets to be destroyed/disposed

2. Arrange the inventory/assets in a manner that will facilitate easy identification and counting. Failure to observe this requirement may be a ground for denial. The taxpayer may opt to file another application for the same goods.

3. Ensure that the following procedures are observed in case the taxpayer is authorized to have the destruction/disposal witnessed by the BIR representative (physical witnessing or virtual means) or by a third party:

3.1 The taxpayer is required to submit documents to the concerned BIR Office, where the principal place of business of the taxpayer is registered, the following:

3.1.1 A duly accomplished and notarized Sworn Declaration of Asset Disposal (Annex "F" of this Order) executed by the President, Chief Finance Officer, or any authorized representative containing as follows:

i. List and description of inventory or assets destructed/disposed;
ii. Valuation stated in Section IV.5.; and
iii. Taxable year the assets were initially recognized/acquired.

3.1.2 Photographs of the assets BEFORE, DURING and AFTER the destruction/disposal, with proper labels, numbering, and quantity following the list in the Sworn Declaration of Asset Disposal captured in JPEG or other format acceptable to the BIR, and bearing the respective date and time when such were taken. The pictures of the inventory to be destructed should be arranged in such a way that the items and quantity are clearly identifiable together with the front page of a newspaper of national circulation as an evidence of the actual date; and

3.1.3 For destruction/disposal witnessed by a third party, a video footage of the activity BEFORE, DURING and AFTER the destruction shall be submitted in a format (e.g. MP4) acceptable to the BIR, and bearing the front page of a newspaper of national circulation as evidence of the actual date of the said activity.

3.2 The Sworn Declaration, together with the video, photo files and the latest audited financial statements, shall be filed with the concerned BIR Office where the principal place of business of the taxpayer is registered within three (3) days after the completion of the actual destruction/disposal of the inventory/assets. The video and photograph files shall be submitted in any

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acceptable storage devices such as but not limited to, Digital Versatile Disk (DVD), Universal Storage Bus (USB), memory stick; and

3.3 A duly accomplished and notarized Sworn Declaration (Annex "F") executed by the third party who, under the penalty of perjury, witnessed the process of destruction/disposal stating the accuracy as to the quantity of the items and the manner of destruction or disposal of inventory or equipment.

4. Coordinate and assist the duly authorized BIR representative in the verification of the value of goods/assets/equipment to be destructed/ disposed and in the supervision on the actual destruction/disposal thereof.

5. Submit all required documents, including the report of the third party certifying therein that the procedures under Section V.B.4 (4.a & 4.b) of this Order were followed.

B. The LT Office/RDO shall:

1. Accept the application (Annex "A") together with the complete requirements and stamp the word "RECEIVED" on the appropriate box provided therein, indicating the date and time of receipt and the signature of the receiving officer. Otherwise, the application shall be returned to the taxpayer with the list of lacking documents.

2. Assign immediately the application to the Revenue Officer who will determine the appropriate manner of witnessing the destruction/disposal, which may either be through physical witnessing, virtual means, or through a third party.

3. Inform the taxpayer-applicant within five (5) days after the receipt of application as to the approved manner and date of witnessing, and schedule of destruction/disposal. If to be witnessed by a third party, issue an authorization letter to witness the conduct of destruction/disposal (Annex "B") through the taxpayer.

4. Process/Act on the application according to the following procedures:

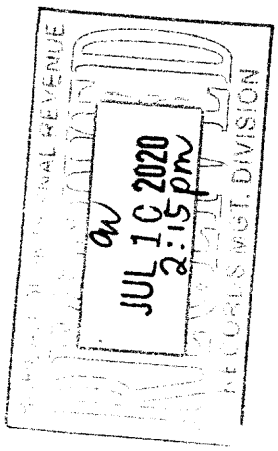
4.a. Before the destruction/disposal of inventories/equipment:

4.a.1. Verify the accuracy and completeness of the information reflected in the application against the supporting documents.

4.a.2. Check the description and quantity or the goods for destruction against the latest Inventory List/Ledger filed with the BIR, or against the purchase invoices, in case of current transactions. If any discrepancy is noted, require the taxpayer to explain the discrepancy or to submit additional document, as the case may be.

4.a.3. Coordinate with the taxpayer on the schedule of actual date and time of destruction/disposal.

4.a.4. Request the taxpayer to take pictures of the goods to be destroyed/disposed.



4.b. During Disposal/Destruction

4.b.1. Check the existence of the actual volume/quantity and description of articles/goods/materials/assets sought to be destroyed/disposed, and compare with the volume/quantity/description declared in the taxpayer's application. Any discrepancy noted in the actual counting must be confirmed or attested to by the taxpayer or authorized representative. Failure to confirm shall be a ground for denial.

4.b.2. Supervise and witness the conduct of actual destruction/disposal of goods considered as waste or obsolete. Ensure that the goods were actually destroyed through incineration, dumping, or other methods of destruction to ascertain that such goods cannot be resold and/or used in production or operations in its original form.

4.b.3. Request the taxpayer to take pictures of the goods during the destruction/disposal activity.

4.c. After Disposal/Destruction

4.c.1. Compare the amount or value of inventory per list submitted against taxpayer's accounting records, such as:

i. Inventory Ledger Card;
ii. Materials Requisition Report;
iii. Official Registry Books (ORB) for excisable products/materials, if applicable; and
iv. Other relevant records (e.g. PEZA application, etc.).

4.c.2. Verify from the journal entries, ledger and/or other related accounting records that the goods subject for disposal/destruction actually formed part of the taxpayer's inventory or assets as of the time of disposal/destruction.

4.c.3. Request the taxpayer to take pictures of the result of the destruction/disposal.

4.c.4. Determine the correctness of the valuation of the goods destroyed/ disposed. For this purpose, actual cost shall be the basis for the valuation of inventory/assets. However, if actual cost cannot be accurately determined, valuation method being adopted by the taxpayer in their financial statement may be used. The value of the inventory declared by the taxpayer for such purposes shall be deemed correct, subject to adjustment upon audit.

5. Prepare a memorandum report on the result of disposal/destruction conducted within five (5) days from the date of submission of pictures and other required documents.

6. The report shall contain all the necessary details, such as but not limited to:

6.a. Nature of taxpayer's business;

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6.b. Brief description of the activities undertaken during the inspection or verification;

6.c. Findings and other relevant information uncovered during the inspection or verification; and

6.d. Recommendation relevant to the application (e.g. approve/denied, amount of allowable deduction, etc.)

7. Prepare in triplicate the "Certificate of Deductibility of Goods/Assets Destructed/Disposed " and submit the entire docket to the approving office.

8. Release the signed "Certificate of Deductibility of Goods/Assets Destructed/Disposed" to the taxpayer or taxpayer's authorized representative.

VI. REPEALING CLAUSE

All other issuances and/or portions thereof inconsistent herewith are hereby repealed, modified or amended accordingly.

VII. EFFECTIVITY

This Order shall cover applications filed after its effectivity.

All internal revenue officials, employees and others concerned are hereby enjoined to give the Order as wide a publicity as possible.

CAESAR R. DULAY
Commissioner of Internal Revenue

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