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

October 3, 2012

REVENUE MEMORANDUM ODER NO. 25-2012

SUBJECT : Guidelines and Procedures in the Pre-audit of Annual Income Tax Returns of Individuals Engaged in Business/Practice of Profession and Corporate Taxpayers Filed at the Revenue District Offices

TO : All Regional Directors, Revenue District Officers, Chiefs of the Assessment Divisions and All Internal Revenue Officers Concerned

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I. BACKGROUND

To ensure strict compliance by taxpayers with internal revenue laws and regulations, in relation to the requisites of deductibility of certain expenses and payment of correct income tax, annual income tax returns (ITRs) filed for the current year shall be subject to pre-audit by the Revenue District Offices.

II. COVERAGE

This Order shall cover the pre-audit of all the annual ITRs filed by individual taxpayers engaged in business or in the practice of their profession and corporate taxpayers that are registered in the Revenue District Offices.

III. GUIDELINES AND PROCEDURES

1. The pre-audit of annual ITRs shall be conducted without field investigation and shall ***not*** be covered by electronic Letter of Authority (eLA) or Tax Verification Notice (TVN).

2. The Revenue District Officer shall issue to the Revenue Officer (RO) a memorandum, in duplicate copies, assigning the pre-audit of annual ITRs in batch, indicating therein the following:

   2.1 Name of RO assigned;
   2.2 Name of taxpayers contained in the batch;
   2.3 Taxpayer Identification Number (TIN) of the taxpayers included in the batch; and
   2.4 Document Locator Number (DLN) per tax return.

3. The RO assigned shall acknowledge receipt of the duplicate copies of the ITRs in the duplicate copy of the memorandum which shall also serve as the Revenue District Office's (RDO's) file copy. The original copy of the memorandum shall be attached

to the batch containing duplicate copies of the annual ITRs after the assigned RO has completed the pre-audit thereof. For revenue regions where the storage and processing of tax returns are assigned to the Data Processing Divisions, pre-audit shall be done by the RO by viewing the imaged returns. Only where there are discrepancies/findings upon pre-audit shall the tax returns be printed.

4. In the conduct of the pre-audit, the RO shall verify the following:

   4.1 Mathematical computation of income tax due and payment;

   4.2 Correctness and applicability of personal and additional exemptions claimed by individuals against the registration records per ITS;

   4.3 Correctness and validity of the following deductions/expenses subject to the ceiling/limitations prescribed under existing laws and regulations:

      4.3.1 Interest expense;
      4.3.2 Charitable and other contributions;
      4.3.3 Representation expense and
      4.3.4 Miscellaneous expense.

   4.4 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;

   4.5 Correctness of the application of the minimum corporate income tax (MCIT) pursuant to Sec. 27 (E) and Sec 28 (A)(2) of the National Internal Revenue Code of 1997 (Tax Code), as amended, as implemented by Revenue Regulations (RR) No. 9-98 and amended by RR No. 12-2007 and clarified through Revenue Memorandum Circular (RMC) No. 4-2003 and RMC No. 24-2008;

   4.6 Claimed creditable withholding taxes against tax due and substantiation of claims through the certificates of withholding taxes attached to the tax returns or submitted electronically to the BIR;

   4.7 Correct utilization of Tax Credit Certificates which should be duly supported by an approved Tax Debit Memo issued by the authorized Revenue Official;

   4.8 Correctness of deductions claimed by taxpayers who opted for Optional Standard Deduction (OSD) pursuant to Sec. 34 (L) of the Tax Code, as amended, and implemented by RR No. 16-2008, as amended by RR No. 2-2010;

   4.9 Accuracy and applicability of the computation of the Net Operating Loss Carry-Over (NOLCO) pursuant to Sec. 34 (D)(3) of the Tax Code, as amended and

      implemented by RR No. 14-2001; and

4.10 Completeness of the required attachments to annual ITRs as prescribed under existing revenue issuances;

5. In case the pre-audit will result to a deficiency tax, the RO shall perform the following:

   5.1 Prepare the memorandum report and BIR Form No. 0500 for approval and signature of the Revenue District Officer.

   5.2 Send a letter (Annex "A") through registered mail signed by the Revenue District Officer stating the computed assessment as a result of the pre-audit and requiring the settlement of the deficiency tax within fifteen (15) days from receipt thereof. The letter shall state that the pre-audit will not preclude the issuance of an eLA subsequently.

   5.3 In case the taxpayer agrees to pay the deficiency tax, BIR Form No. 0605 (Payment Form) shall be utilized for this purpose and a copy of the proof of payment shall be attached to the report.

   5.4 If the taxpayer fails to respond or does not pay the deficiency tax, prepare a report recommending the issuance of a Preliminary Assessment Notice (PAN) or a Final Assessment Notice (FAN), if warranted, pursuant to Sec. 228 of the Tax Code, as amended, and transmit the docket of the case to the Assessment Division for review and issuance of assessment notices, subject to the approval of the Regional Director.

6. Pre-audited annual ITRs may also be selected for regular audit if they qualify under the selection criteria prescribed in the annual Audit Program.

7. If in the course of the pre-audit of the tax return, it has been established by the RO that a thorough audit/investigation is necessary, the RO assigned may recommend to the Regional Director, through his Revenue District Officer, the audit/investigation of all internal revenue tax liabilities of the concerned taxpayer. A written justification shall be prepared and submitted to the Regional Director for approval. After securing the approval of the Regional Director, the Electronic Letter of Authority Monitoring System (eLAMS) shall be used in encoding, requesting and approving of the eLA. Cases falling under this category shall be assigned with Selection Code – PRE if there is no Selection Code in the regular Audit Program that corresponds to the case. Otherwise, the Selection Code under existing Audit Program shall be used.

8. All pre-audited annual ITRs with "no discrepancy" and ITRs where the taxpayer had settled the deficiency tax shall no longer be transmitted to the Assessment Division. The said return shall be retained in the RDO for possible audit/investigation as may be prescribed in the Audit Program.
9. The following are the reports to be submitted in soft copy using the excel format on or before the 10th day of the month:

Name of Report		Office/Person Responsible	Distribution of Report
9.1	Monthly Report on the Results of the Pre-audit of Annual Income Tax Returns of Individuals (Annex "B")	Revenue District Officer	Assistant Commissioner - Assessment Service (ACIR -AS) Attention: Audit Information, Tax Exemption and Incentives Division (AITEID) CC: Regional Director
9.2	Monthly Report on the Results of the Pre-audit of Annual Income Tax Returns of Corporations (Annex "C")	Revenue District Officer	ACIR-AS Attention: AITEID CC: Regional Director
9.3	Monthly Report on the Results of the Review of Pre-audited Annual Income Tax Returns of Individuals and Corporations (Annex "D")	Regional Director	ACIR-AS Attention: AITEID

IV. REPEALING CLAUSE

All other issuances inconsistent herewith are hereby modified or repealed accordingly.

V. EFFECTIVITY

This Order shall take effect immediately.

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

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