REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

July 2, 2004

REVENUE MEMORANDUM ORDER NO. 32-2004

SUBJECT : Special Operations on Motels.

TO : All Regional Directors, Revenue District Officers and Others Concerned.

I. PRELIMINARY STATEMENT.

To achieve the mandated yearly collection targets of the Bureau, and to enable the Bureau to meet the fiscal requirement of the country, it is important for the Bureau to collect the right amount of taxes due from all taxpayers. In relation thereto, the Bureau must be able to determine the correct amount due from each taxpayers, and collect the same, without, however, impeding the business of taxpayers and their ability to generate more revenues which will in turn translate to higher tax collection. To enable the Bureau to determine the proper taxes due, the Bureau has by and large relied on third party information.

However, there are certain business activities where the determination of the correct tax liabilities cannot be properly made by merely utilizing third party information for various reasons peculiar to said industry, among them is the motel and inn business. In view of said difficulty, the most effective methodology to determine their proper tax liability is through the surveillance method. The surveillance method is however, very labor intensive and may hamper the way the motels and inns do business. In view thereof and pending the BIR's deployment of the appropriate monitoring technology at these establishment, this Revenue Memorandum Order is being issued to provide a methodology for determining the correct tax liability of motels. Separate RMO shall be issued to cover inns and other similar establishment.

II. OBJECTIVES.

1. Strengthen voluntary tax compliance by those in the motel business.

2. Provide guidelines and enforcement measures that may be implemented under conditions set forth herein.

III. OPERATIONAL MEASURES.

1. Motels who fail to comply with the following conditions shall be the subject of surveillance and/or such appropriate enforcement measures (to determine its true and correct tax liabilities) to be conducted by the RDO/LTS/LTDO having jurisdiction of said motels upon the approval of the Commissioner:

    a. Submit a Declaration under Oath of the number of motel rooms and room rates per class within thirty (30) days from the issuance hereof, or on or before January 31 in the succeeding years thereafter,

    b. Occupancy rate reported for tax purposes for each month is equal to or greater than 1.5 or the average turnover for the whole year 2003 whichever is higher. Where:

        i. "occupancy rate" is computed by dividing the gross sales declared by motels in their VAT/Income Tax Return for a given period divided by gross room rate for the month, and

        ii. "gross room rate for the month" is determined by aggregating the product of the number of rooms per class and the room rate and multiplying the same with the total number of days for the said month.

            Gross room rate for the month =[(number of rooms x rate per room) + (number of rooms x rate per room)...] x number of days in the month

        The number of motel rooms and room rates to be used in the above computation shall be based on the submitted Declaration under Oath required in the immediately preceding paragraph and verified to be correct by the Bureau.

2. Initially, the RDO/LTS/LTDO shall use the gross sales reported in the VAT/Income Tax returns submitted by the motels for the period of January to June 2004 in determining the occupancy rate provided for in Section III(1)(b) above in recommending which motels shall or shall not be subjected to surveillance and/or such appropriate enforcement measures. However, for this purpose, motels shall be allowed to amend its Value Added Tax (VAT) and Income Tax Return for the months of January to June 2004 without any penalties and interests under the following conditions:

a. The amendment and payment of taxes arising from said amendment shall be made on or before July 15, 2004, and

b. The amendments shall only pertain to its gross sales.

3. RDO/LTS/LTDO having jurisdiction over motels who fail to comply with conditions set forth in Section III(1) hereof shall immediately recommend to and obtain the approval of the Commissioner to conduct a surveillance operations and/or BIR on premises operations on said motels attaching thereto the basis for said recommendation.

4. "Surveillance or appropriate enforcement measures" may include the posting BIR personnel in the premises of a designated business establishment for purpose of determining the volume of business transactions entered into by the business establishment for a given period of time.

5. RDO/LTS/LTDO authorized by the Commissioner to conduct surveillance and/or BIR on premises operations shall within ten (10) days from the completion of the operation submit a written report to the Commissioner on the result of said operations.

6. Nothing herein shall prevent the Commissioner from ordering the investigation of any motels to determine their true and correct tax liabilities if the circumstances so warrant or in the presence of information, which may warrant said investigations.

IV. REPORTS & REPORTING SYSTEM.

RDO shall submit monthly report to their RD on their progress on the implementation of this Operations following the format below:

A. RDO Number : _____

B. Number of Motels in RDO Jurisdiction : _____

C. Compliance:

	January to June 2004	July Forward
Full Compliance		
Partial Compliance		
No Compliance		

D. Collection:

	As of Last Report	This Report
January to June 2004 as a result of amendment allowed under Section III(2)		
July Forward		

E. Surveillance:

		Outcome (Defying/Com-plied with Conditions
Recommended		
Completed		
On-going		

The Regional Director shall consolidate the report of the RDOs and submit a monthly Regional Report to the Commissioner of Internal Revenue (Attn: Motel Project Officer).

In addition to the foregoing reports, the RDO/LTS/LTDO shall submit a table showing the computation of the minimum occupancy to be reported by each motel within its jurisdiction for tax purposes and the amount of additional tax to be collected following the format of the table attached hereto as Annex "A".

VI. REPEALING CLAUSE.

Provisions of all revenue issuances inconsistent herewith, are hereby revoked or modified accordingly.

(Original Signed)
GUILLERMO L. PARAYNO, JR.
Commissioner of Internal Revenue