REPUBLIKA NG PILIPINAS
KAGAWARAN NG PANANALAPI
KAWANIHAN NG RENTAS INTERNAS

November 24, 2005

REVENUE MEMORANDUM ORDER NO. 32-2005

SUBJECT : Prescribing Guidelines and Procedures in Handling Letter Notices for Deployment via the Information Delivery Portal in the Years 2005 Onwards for Audit and Enforcement Purposes

TO : All Internal Revenue Officers and Others Concerned

I. BACKGROUND

The Bureau of Internal Revenue is presently reaping the fruits of its investment in information technology to enhance tax collections.

With the introduction of "RELIEF" /Reconciliation of Listing for Enforcement System and "TPM-BOC Data" /Third Party Matching – Bureau of Customs Data Program, the Bureau was able to detect tax leaks, through the matching of data available in the Integrated Tax System (ITS) with the information gathered from third party sources, leading to potential tax assessments and efficient tax administration.

In the past years, the Bureau had issued a large number of Letter Notices (LNs) to various taxpayers that led to the issuance of deficiency tax assessments and the unprecedented increase in tax collection.

To improve administration and to achieve operational excellence, there is a need to fine-tune existing procedures in handling assessments against taxpayers issued LNs by reconciling various revenue issuances, some of which conflict with each other and some of which conflict with the Tax Code.

II. OBJECTIVES

This Order is issued to:

1. Prescribe a single coherent set of policies, guidelines and procedures within the framework of existing laws, rules and regulations insofar as handling of LNs is concerned;

2. Prescribe procedures in the resolution of LN discrepancies, conversion of LNs to Letters of Authority (LAs), assessment and collection of deficiency taxes;

3. Prescribe standard report forms to be used by all concerned offices in the implementation of this Order; and
4. Define the duties and responsibilities of concerned revenue officers and officials over the LNs assigned to them.

III. COVERAGE

This Order shall cover the VAT and income tax liabilities of individual and corporate taxpayers issued Letter Notices (LNs) deployed via the Information Delivery Portal (IDP) for the following period:

1. LNs under the TPM-BOC Data Program or BOC LNs (Annex "A") covering taxable year 2003; and

2. Consolidated ("RELIEF" / SLSP and BOC) LNs (Annex "B") for taxable years 2004 onwards

Please note that while RELIEF refers to all data/listings gathered from internal and external sources residing at the Data Warehouse which serves as a central repository, SLSP refers to the Summary Lists of Sales and/or Purchases submitted by VAT registered taxpayers for matching against data in the VAT returns found at the Returns Processing System (RPS). To avoid confusion, all RELIEF LNs shall henceforth be referred to as SLSP LNs.

IV. POLICIES AND GUIDELINES

1. As provided for under existing Revenue Memorandum Order (RMO) on "RELIEF" / SLSP System (i.e., RMO No. 30-2003, as amended by RMO Nos. 42-2003 and 24-2004) and RMO on TPM-BOC Data Program (i.e. RMO No. 34-2004, as amended by RMO No. 46-2004), taxpayers with underdeclaration of sales and/or purchases (domestic or imported) shall be notified of such findings of discrepancy through the issuance of Letter Notices (LNs) as shown in Annexes "A" and "B" hereof.

2. BOC LNs covering taxable year 2003 and consolidated (SLSP and BOC) LNs covering taxable years 2004 onwards shall be deployed, together with the Details of Taxpayer's Customers/Suppliers (DTCS) and/or Details of Importation with Return Information Matching (DIRIM), via the IDP.

3. Taxpayer issued LN may voluntarily pay the deficiency income and value added taxes resulting from the findings of discrepancy in the LN and shall be entitled to the abatement of interests and penalties provided he pays the deficiency taxes within sixty (60) days from receipt of the LN. Any payment of tax liabilities beyond the sixty (60) day period shall be assessed the corresponding interests and penalties.

4. The deficiency income and value added taxes shall be computed using the formulas prescribed herein (Annexes "C", "C1", and "C2") and the corresponding payment shall be made using BIR Form No. 0611-A.

5. The herein prescribed formulas for the computation of the deficiency taxes shall apply only to LNs issued to taxpayers that are not the subject of an investigation pursuant to an LA, since under the "no-contact-audit approach" policy laid down under RMO No. 42-2003, the concerned RO has no opportunity to examine the records of the taxpayer for purposes of determining its true tax liabilities.

6. The settlement and payment of the deficiency tax(es) under an LN shall not preclude the Bureau from isssuing a Letter of Authority (LA) covering the comprehensive audit of a taxpayer's tax liability. However, any payment of deficiency tax(es) shall be credited against any assessment that may be made by the appropriate BIR Office pursuant to a notice of investigation or LA provided the discrepancies disclosed by said audit are of the same nature as the discrepancies reflected in the LN.

7. LNs served on taxpayers for which no response was received or LNs that remained unserved due to failure to locate the taxpayers shall be converted to LAs after the lapse of the sixty (60) day period from LN issuance. The concerned investigating office shall endorse the LNs to the Office of the Assistant Commissioner, Large Taxpayers Service (OACIR-LTS) / Office of the Regional Director (ORD) for issuance of the corresponding LAs. The OACIR-LTS / ORD shall be held responsible for the preparation of the LAs with the notation "This LA cancels LN No. _____". A consolidated list of LNs converted to LAs, using the herein prescribed format (Annex "D") shall be submitted by the OACIR-LTS / ORD to the AS, thru AITEID, within twenty (20) days after the lapse of the sixty (60) day period from LN issuance.

8. In the event a taxpayer who has been issued an LN refutes the discrepancy shown in the LN, the concerned taxpayer will be given an opportunity to reconcile its records with those of the BIR within One Hundred and Twenty (120) days from the date of issuance of the LN. However, the subject taxpayer shall no longer be entitled to the abatement of interest and penalties after the lapse of the sixty (60) day period from LN issuance.

9. In case the above discrepancies remained unresolved at the end of the One Hundred and Twenty (120) day period, the revenue officer (RO) assigned to handle the LN shall recommend the issuance of LA to replace the LN. The head of the concerned investigating office shall submit a summary list of LNs for conversion to LAs (using the herein prescribed format in Annex "E" hereof) to the OACIR-LTS / ORD for the preparation of the corresponding LAs with the notation "This LA cancels LN No. _____."

10. The audit to be conducted pursuant to an LA should be an issue-based audit focusing on the third party information (TPI) provided by the TPI sources. If an issue-based audit is not suitable, a comprehensive audit shall be undertaken following the audit procedures and techniques under Revenue Administrative Memorandum Order (RAMO) No. 1-2000, and complying with the reportorial requirements prescribed under RMO No. 53-98.

11. In case an LN is issued to a taxpayer who is already the subject of an investigation pursuant to an LA for the period covered by the said LN, the LN shall not be considered cancelled and shall form part of the audit docket. The TPI reflected in the said LN should be properly utilized by including the extent of its utilization in the report of investigation by the concerned RO.

12. For effective monitoring and to ensure proper utilization of the TPI relative to LNs issued to taxpayers who are subjects of investigation pursuant to LAs for the same period (whether the LAs were issued before or subsequent to LN issuance), the concerned investigating offices shall prepare a Monthly Collection Report on LAs with LN Discrepancy using the format prescribed in Annex "F" hereof, for submission to the OACIR-LTS/ORD, copy furnished the AITEID, on or before the 10th day following the close of each month.

13. As provided under Revenue Memorandum Circular No. 40-2003, LNs issued to taxpayers can be considered notice of audit/investigation insofar as the amendment of any return covering the period referred to in the LN. Accordingly, a taxpayer is disqualified from amending its return covering the period referred to in the LN upon receipt of the same.

14. The guidelines and procedures in handling LNs as set forth under RMO on "RELIEF" SLSP System (i.e., RMO No. 30-2003, as amended by RMO Nos. 42-2003 and 24-2004) and RMO on TPM-BOC Data Program (i.e., RMO No. 34-2004, as amended by RMO No. 46-2004) shall continue to remain in force for LNs issued in 2004 and prior years (i.e., SLSP LNs covering taxable years 2003 and prior, BOC LNs covering taxable years 2002 and prior).

15. The procedures prescribed under RMO Nos. 30-2003, 24-2004 and 34-2004, insofar as the verification of and action on LN discrepancy are concerned, which are not inconsistent with this RMO shall be observed for LNs issued in 2005 onwards whenever applicable.

16. All activities/accomplishment of the concerned investigating offices and ROs relative to this Order shall be monitored online thru the IDP by the OACIR-LTS/ORD and AITEID using the Letter Notice System (LNS) under the e-Correspondence Monitoring System (ECMS) based on access rights and privileges granted to said offices.

V. PROCEDURES

A. At the Systems Operations Division (SOD)/ Information Systems Operations Service (ISOS)

1. Activate the processes needed for LN generation based on the discrepancy threshold set by the AITEID.

2. Inform, in writng or via e-mail, the AITEID on the generation, via the IDP, of the new batch of consolidated (SLSP/BOC) LN packages consisting of the following:

   a. List of taxpayers issued LNs sorted by Revenue Region (RR)/ Revenue District Office (RDO) or Investigating Offices under the Large Taxpayers Service (LTS);

   b. System-generated LNs

   c. Details of Taxpayer's Customers'/ Suppliers' Records (DTCS);

   d. Details of Importation with Return Information Matching (DIRIM);

3. After the LN packages are validated on test basis by the AITEID, inform, in writing or via e-mail, the Assistant Commissioner- Large Taxpayers Service (ACIR-LTS) and the concerned Regional Director (RD) on the deployment via the IDP of the new batch of LN packages.

4. Publish the LN packages to the Large Taxpayers Audit and Investigation Division (LTAID) I and II/ Large Taxpayers District Office (LTDO)/ Revenue District Office (RDO) channel in the IDP.

B. At the Regional Office/ Large Taxpayers Service

1. Acknowledge in writing, or via e-mail, receipt from the SOD of information on the deployment via the IDP of the LN packages.

2. View the LN packages deployed in the IDP.

3. Check for completeness by comparing the List of LNs sorted by RR/RDO/LTAID I and II/ LTDO against the LNs and the DTCS/DIRIM.

4. Direct the concerned investigating offices to download and print the LN packages for service of the LNs, together with the DTCS/DIRIM, to the concerned taxpayers.

5. Monitor compliance by the concerned investigating offices, in providing online real-time updates (on LN status and collection) relative to LNs downloaded by the said offices.

6. Provide online updates on LNs via the IDP based on the system access rights and privileges granted to the Office of the ACIR-LTS/RD.

7. Evaluate the Summary List of LNs for Conversion to LAs submitted by the RDO/ LTAID I and II / LTDO (Annex "D") prior to approval.

8. Upon approval of the above list, prepare/accomplish and sign the corresponding LAs.

9. Prepare a consolidated list of LNs converted to LAs (per RDO/LTAID I and II/LTDO) and transmit a copy of the said list using the same format in Annex "D" and "E" hereof, to the AS, thru the AITEID, within twenty (20) days after the lapse of the 60-day or the 120-day period from LN issuance, as the case may be.

10. Transmit the approved/signed LAs, together with the duly accomplished/approved Summary List of LNs for Conversion to LAs, to the concerned investigating offices for encoding of the required information in the LA Monitoring System (LAMS) and for service to the concerned taxpayers.

11. Receive from the RDO/LTAID I and II/LTDO the Monthly Collection Report on LAs with LN Discrepancy (Annex "F") on or before the 10th day following the close of each month for review and monitoring purposes.

12. Analyze the statistical report on LNs issued per RDO/LTAID I and II/LTDO.

13. Review the online consolidated LN status and collection report and print the same as needed.

14. Provide progress reports on LN status and collection as may be required by top management.

C. At the RDO/LTAID I and II/ LTDO

1. Acknowledge, in writing or via e-mail, receipt of directive from the ACIR-LTS/RD for downloading and printing of the LN packages from the IDP.

2. Download from the IDP the LN packages consisting of the following:

   a. List of taxpayers issued LNs sorted by RR/RDO or LTS/LTAID I and II/LTDO
   b. System-generated LNs
   c. DTCS
   d. DIRIM

3. Print the contents of the LN packages within three (3) days from downloading of the same.

4. Assign the LNs to the ROs for service of the same, together with the DTCS/DIRIM to the concerned taxpayers.

5. For LN issued to taxpayer who is also the subject of an investigation pursuant to an LA for the period covered by the said LN

   A.1 Where the investigation of the tax liability of the taxpayer is on-going

      a. Refer the LN, together with the DTCS/DIRIM, to the concerned revenue officer (RO) for inclusion of the LN discrepancy in its on-going audit/investigation

      b. Require the concerned RO to include the extent of utilization of the discrepancy in his report of investigation

      c. Forward to the concerned reviewing office the docket bearing on the LN issued for review and evaluation of the extent of LN discrepancy utilization.

   A.2 Where the audit case has undergone processing at the RDO/LTAID I and II/LTDO and is pending review at the reviewing office

      a. Refer the LN, together with the DTCS/DIRIM, to the concerned reviewing office to determine if the discrepancy stated in the LN was considered in the report of investigation

      b. If not considered, receive from the reviewing office the docket, together with the LN and the DTCS/DIRIM, to effect delivery of the LN to the taxpayer for the collection of the basic Income and VAT, based on corrected taxable base, if paid within sixty (60) days from LN issuance.

A.3 Where the case is already closed and terminated, refer the LN, together with the DTCS/DIRIM, to the concerned reviewing office for appropriate action.

6. Maintain a separate record of all LNs assigned to ROs for accountability. Said record shall contain the following information:

    a. LN Number (system-assigned control number)
    b. Name of Taxpayer issued LN
    c. TIN of Taxpayer
    d. Period Covered
    e. Name of Revenue Officer assigned to handle the LN
    f. Date of Assignment
    g. Remarks (e.g., with covering LA, LA Number, etc.)

7. Effect the service of the system-generated LNs, together with the DTCS/DIRIM to the concerned taxpayers.

8. Follow, whenever applicable, the procedures prescribed under RMO Nos. 30-2003, 24-2004 and 34-2004, insofar as the verification of and action on LN discrepancy are concerned.

9. If the taxpayer interposes no objection to the discrepancies in the LN and agrees to pay the required taxes within sixty (60) days from LN issuance, collect the basic income and VAT without interest and penalties using the formulas prescribed in Annexes "C" or "C1" or "C2" hereof.

10. If the taxpayer refutes the accuracy of the figures in the LN (due to erroneous encoding or due to timing difference) and the discrepancy was subsequently resolved upon presentation by the taxpayer of documentary proofs, reconciliation schedules and the like, compute the deficiency VAT or income tax based on the corrected/adjusted taxable base plus increments if after the lapse of the sixty (60) day period from LN issuance.

11. If the LN discrepancies remained unresolved within One Hundred and Twenty (120) days from issuance thereof, prepare a summary list of said LNs for conversion to LAs using the prescribed format in Annex "E" hereof.

12. If the LNs remained unserved due to failure to locate the taxpayer or LNs were served but no response was received within the sixty (60) day period from LN issuance, prepare a summary list of said LNs for conversion to LAs (using the same format in Annex "D" hereof).

13. Forward the summary lists in items 11 and 12 above, within ten (10) days after the lapse of the 120-day or 60-day period from LN issuance, as the case may be to the OACIR-LTS/ORD for approval and preparation of the corresponding LAs.

14. Receive the approved/signed LAs, together with the duly accomplished/approved Summary Lists of LNs for Conversion to LAs from the OACIR-LTS/ORD.

15. Encode the required information in the LAMS. Select the appropriate "Value" from the List of Valid Values and under the Remarks column, indicate "This LA replaces LN No. _____" for purposes of cross-referencing with the LN System under the ECMS.

16. Effect the service of the above LAs to the concerned taxpayers.

17. Prepare a Monthly Collection Report on LAs with LN Discrepancy, using the format shown in Annex "F" hereof, and submit to ACIR-LTS/RD, copy furnished ATTEID every 10th day following the close of each month.

18. Provide online updates via the IDP on LNs converted to LAs. Select the appropriate "Status" from the List of Status Codes and Description and indicate in the Remarks field "LN replaced by LA No. _____" for cross-referencing with the LAMS.

19. Provide real-time online updates on all outstanding LNs via the IDP based on access rights and privileges granted to the RDO/LTAID I and II/LTDO.

20. Monitor and evaluate the performance of ROs relative o the LNs assigned to them based on set key performance indicators.

21. Provide online progress reports on LN status and collection as required under existing revenue issuances.

D. At the Reviewing Office (OACIR-LTS / Assessment Division)

1. Where the taxpayer issued LN is under audit (i.e., investigation is on-going) pursuant to an LA for the period covered by the said LN:

    a. Receive from the investigating units the docket containing the LN with the DTCS/DIRIM

    b. Follow the prescribed procedures in the review of dockets and ascertain whether the LN discrepancy was considered in the report of investigation

b.1 If the discrepancy was considered

b.1.1 Update via the IDP the LN status based on authorized access granted, by selecting the appropriate "Value" from the List of Values, "LN discrepancy already considered in the report of investigation"

b.1.2 Forward the LN to AITEID for cancellation of the same

b.2 If the discrepancy was not considered, remand the docket to the RDO/LTAID I and II/LTDO for appropriate action

2. Where the case is pending review at the time of LN issuance

   a. Receive from the investigating units the LN plus the DTCS/DIRIM
   b. Follow the procedures prescribed under 1(b) above

3. Where the case is already closed and terminated at the time of LN issuance

   a. Receive the LN, plus the DTCS/DIRIM from the concerned investigating office
   b. Forward the LN, plus a copy of the termination letter, to the AITEID for cancellation of the same.

4. Instead of forwarding the dockets bearing on issued LNs to the Special Concerns Group (SCG) / Technical Working Group (TWG), the same shall be transmitted to the AS, upon request, for post-audit.

E. At the AITEID

1. Spell out the parameters for the issuance of Letter Notices based on the policy direction of top management.

2. Set the threshold on LN discrepancies before the activation of the processes needed for LN generation.

3. Acknowledge, in writing or via e-mail, receipt from the SOD of information on the generation via the IDP of the new batch of LN packages.

4. Validate on test basis the new LN packages before deployment of the same via the IDP.

5. Receive from the RDO/LTAID I and II/LTDO the Monthly Collection Report on LAs with LN Discrepancy (Annex "F") on or before the 10th day following the close of each month for monitoring purposes.

6. Receive from the concerned reviewing office LNs for cancellation if the LN discrepancy was considered in the audit case of taxpayers issued LNs.

7. Perform overall monitoring, via the IDP, of LNs issued based on real-time online updates provided by the OACIR-LTS/LTAID I and II/LTDO or ORD/RDO and other authorized offices granted access rights and privileges.

8. Provide top management with consolidated report on LN status and collection as may be required.

VI. REPEALING CLAUSE

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

VII. EFFECTIVITY

This Order shall take effect immediately.

(Original Signed)
JOSE MARIO C. BUÑAG
OIC – Commissioner of Internal Revenue

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