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

October 8, 2007

REVENUE MEMORANDUM ORDER NO. 32-2007

SUBJECT : Prescribing Guidelines and Procedures in Handling 2006 Letter Notices Generated Thru Reconciliation of Listing for Enforcement System (RELIEF) and Third Party Matching-Bureau of Customs (TPM-BOC) Data Program

TO : All Internal Revenue Officers and Others Concerned

I. OBJECTIVE

This Order is issued to simplify procedures and minimize processing time in handling 2006 Letter Notices generated thru the Reconciliation of Listing for Enforcement System (RELIEF)-Summary List of Sales and Purchases (SLSP) and Third Party Matching-Bureau of Customs (TPM-BOC) Data Program to maximize revenue collection.

II. COVERAGE

This Order shall cover the income and value added tax liabilities of individual and corporate taxpayers who were issued LNs based on the Consolidated RELIEF-SLSP and TPM-BOC Data Program covering calendar year 2006.

III. POLICIES

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, 24-2004, 32-2005 and 21-2006) and RMO on TPM-BOC Data Program (i.e., RMO No. 34-2004, as amended by RMO Nos. 46-2004, 32-2005 and 21-2006), taxpayers with discrepancy on their sales and/or purchases (domestic or imported) shall be notified of such findings through the issuance of an LN (Annex "A").

2. LNs covering calendar year 2006 shall be deployed based on the parameters set by Audit Information, Tax Exemptions and Incentives Division (AITEID) as approved by the Commissioner of Internal Revenue (CIR), together with the Details of Taxpayer's Customers/Suppliers (DTCS) and/or Details of

Importations with Return Information Matching (DIRIM), via the Information Delivery Portal (IDP).

3. There shall be no conversion of 2006 LNs to Letters of Authority/Tax Verification Notices (LAs/TVNs). If there is an on-going audit/investigation pursuant to an LA/TVN for taxable year 2006 in accordance with the audit program under RMO No. 12-2007, the LN shall be separately handled and whatever discrepancy paid for under an LN shall be credited against any assessment that may be made by the investigating office handling an LA/TVN provided the discrepancies disclosed by said audit/investigation are of the same nature as the discrepancies reflected in the LN.

4. The CIR shall create an LN Task Force in the National Office to be composed of Revenue Officers –Assessment (ROs-A) performing supervisory functions in the Revenue District Offices (RDOs) who will be assigned in a concurrent capacity to be covered by a Revenue Special Order (RSO), to handle 2006 LNs. This LN Task Force shall be supervised by the Assessment Service of the National Office.

5. The 2006 LNs together with the DTCS/DIRIM shall be served to taxpayers through personal delivery and registered mail with Registered Return Card by the LN Task Force. A *Follow-up Letter* (Annex "B") shall be prepared and served to the taxpayer for which no response was received after fifteen (15) days from receipt of the LN.

   In the event a taxpayer who has been issued an LN by the LN Task Force refutes the discrepancy, he shall be given an opportunity to reconcile his records with those of the BIR within thirty (30) days from receipt of the LN, to submit documentary proofs in support of his arguments.

   If after fifteen (15) days from receipt of *Follow-up Letter*, no response was received from the taxpayer, or he fails to submit the required documents after filing his protest within the thirty(30)-day period after receipt of the LN, the LN Task Force shall endorse the docket and recommend to the Office of Deputy Commissioner – Operations Group (ODCIR-OG) or to the Office of the Commissioner of Internal Revenue (OCIR) in the absence of the former, thru the Office of the Assistant Commissioner - Assessment Service (OACIR-AS) the issuance of an issue-based LA to cover specifically *"Income and Value Added Taxes Due to Discrepancy Reflected in the LN"*. A *Notice for Informal Conference* together with the LA shall be served to the taxpayer by the LN Task Force. If taxpayer fails to settle his income and value added tax liabilities resulting from LN discrepancy within fifteen (15) days from receipt of *Notice for Informal Conference*/LA, the LN Task Force shall endorse the docket to ODCIR-OG/OCIR thru OACIR-AS for the issuance of the Preliminary Assessment Notice (PAN)/Final Assessment Notice (FAN) in accordance with the provisions of Revenue Regulations (RR) No. 12-99.

6. LNs which remain unserved due to failure to locate the taxpayers (after exhausting all means to locate a taxpayer as observed in the service of LA/TVN) shall be endorsed by the LN Task Force to the concerned RDO, through the Office of the Regional Director (ORD), for service thereof. The copy of the unserved LN together with the documentary proofs to support the claim of the LN Task Force that the taxpayer cannot be located shall be made as attachments to the endorsement.

   The RDO shall exhaust all means to locate the whereabouts of the taxpayer in order to serve the LNs. If served, forward on the following day after receipt of the LN the received copy together with the attachments to the LN Task Force. The RDO, however, shall return to the LN Task Force all LNs which still remain unserved immediately after final determination that the taxpayer cannot be located.

7. For taxpayer issued with an LN who transferred to another investigating office, the concerned office/s shall forward the LN together with the DTCS/DIRIM to AITEID for validation/cancellation and refer to Systems Operations Division (SOD) for regeneration.

8. The deficiency income and value added taxes shall be computed using the formulas prescribed in the attached Computation Sheets for Discrepancy on Sales and/or Purchases [Local and/or Imported] (Annexes "C", "C-1", or "C-2") and the corresponding payment shall be made using BIR Form No. 0611-A. This is in compliance with the "no-contact-audit approach" policy laid down under RMO No. 42-2003, as amended by RMO No. 46-2004, where the concerned RO has no opportunity to examine the records of the taxpayer for purposes of determining his true tax liabilities, but his deficiency tax liabilities are determined using information from third party sources.

9. In case taxpayer files a protest against PAN/FAN and requests for reinvestigation/reconsideration, the ODCIR-OG/CIR thru OACIR-AS shall evaluate the protest in accordance with the provisions of RR No. 12-99.

   a. If the protest is valid, refer the case to the LN Task Force for appropriate action on the request for reinvestigation.

      a.1 The LN Task Force shall act on the protest based on pertinent revenue issuances.

      a.2 The report of reinvestigation, whether the taxpayer settles his tax liabilities or not, must be forwarded by the LN Task Force, together with the docket of the case to the OACIR-AS not later than ten (10) days after payment or action on the protest. The OACIR-AS shall conduct review and evaluation of dockets on

actions taken on the LNs as to the extent of LN discrepancy utilization/payment.

a.3. After review of the OACIR-AS, the docket shall be forwarded to ODCIR-OG/CIR for approval thereof.

b. If the protest, however, is not valid, taxpayer shall be informed in writing that his request for investigation has been denied and the case shall be referred to the appropriate BIR office to effect collection of the deficiency tax(es).

10. Taxpayer shall be entitled to the abatement of interests and penalties provided he pays the deficiency tax(es) within thirty (30) days from receipt of the LN. Any payment of tax liabilities beyond the 30-day period shall be assessed the corresponding interests and penalties. An "Agreement Form" shall be executed by the taxpayer or his duly authorized representative indicating therein the amounts and dates when the deficiency tax(es) shall be paid.

11. Installment payment shall be allowed in cases where the tax liabilities exceeds five hundred thousand pesos (P500,000.00). In this case, a written request for installment payment of the basic tax due plus increments using the Application for Installment Payment (Annex "D") has to be accomplished. The interest corresponding to the basic tax due per installment shall be computed up to the date of payment as shown in the application. Aforesaid request may be granted by the Head, LN Task Force in accordance with the following:

    a. If the amount payable exceeds five hundred thousand pesos (P500,000.00) but not more than three million pesos (P3.0M), payment may be done in two (2) equal monthly installments; or

    b. If the amount payable exceeds three million pesos (P3.0M), payment may be done in three (3) equal monthly installments.

    Any request for deviation from the above-prescribed payment scheme but in no case exceeds six (6) monthly installments shall be subject to the recommendation of the LN Task Force and approval of higher authorities as follows:

    a. Over P500,000.00 up to P10.0M . . . . . ACIR-AS
    b. Over P10.0M . . . . . Deputy Commissioner - Operations Group (DCIR-OG)

    In case of default of any installment payment, the remaining balance shall become due and demandable immediately without prior notice to taxpayer.

    All applications shall be signed by the Recommending Officer and/or Head, LN Task Force, as the case may be. The LN Task Force shall keep track of

payments of taxpayers with requests for installment payments and indicate the same in the appropriate columns provided in the Monthly Collection and Status Report on Letter Notices for TY _____ (Annex "E") for submission to OACIR-AS, Attention: AITEID within ten (10) days following the close of each month.

12. The settlement and payment of the deficiency tax(es) under an LN or issue based LA by a taxpayer shall not preclude the Bureau from issuing an LA/TVN covering the comprehensive audit/investigation of his tax liabilities, if warranted. However, any payment of deficiency tax(es) shall be credited against any assessment that may be made by the investigating office pursuant to an LA/TVN provided the discrepancies disclosed by said audit/investigation are of the same nature as the discrepancies reflected in the LN.

13. In all cases, the LN Task Force must forward the LN tax dockets of audit (which contain LN discrepancy findings) to the ODCIR-OG/OCIR through the OACIR-AS within ten (10) days after payment of the deficiency tax(es) for approval thereof. The ODCIR-OG/CIR shall conduct review and evaluation of dockets on actions taken on the LNs as to the extent of LN discrepancy utilization/payment.

14. Revenue Memorandum Circular No. 40-2003 provides that 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 his return covering the period referred to in the LN upon issuance of the same. Furthermore, CTA Case No. 7093 dated February 22, 2006 states that *"LNs issued against a taxpayer in connection with the information of underdeclaration of sales and purchases gathered through Third Party Information Program may be considered as a "notice of audit or investigation" in the absence of evident error or clear abuse of discretion."*

15. 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, 24-2004, 32-2005 and 21-2006) and RMO on TPM-BOC Data Program (i.e., RMO No. 34-2004, as amended by RMO Nos. 46-2004, 32-2005 and 21-2006), shall continue to remain in force for LNs issued for TY 2005 and prior years by the revenue regions/RDOs.

16. All activities/accomplishments of the LN Task Force relative to this Order shall be monitored online thru the IDP by the OCIR/ODCIR-OG/OACIR-AS/ORD/AITEID under the e-Correspondence Monitoring System (eCMS)/Letter Notice Monitoring System (LNMS) based on access rights and privileges granted to those offices.

IV. GUIDELINES AND PROCEDURES

A. Systems Operations Division

1. Activate the processes needed for LN generation covering calendar 2006 based on the discrepancy threshold set by the AITEID as approved by the CIR.

2. Inform, in writing or via e-mail, the AITEID on the generation, via the IDP, of the new batch of 2006 LN packages consisting of the following:

   a. List of taxpayers issued LNs sorted by revenue region/RDO;
   b. System-generated LNs;
   c. DTCS;
   d. DIRIM.

3. After the 2006 LN packages are validated by the AITEID, inform, in writing or via e-mail, the ACIR-AS on the deployment via the IDP of the new batch of LN packages.

4. Publish the 2006 LN packages to the LN Task Force channel in the IDP or print the 2006 LN packages if LN Task Force channel in the IDP is not yet available and forward the same to AITEID for deployment to LN Task Force.

5. Receive from AITEID the List of Approved 2006 LNs for cancellation/closure by Assessment Service and reflect the same to the LNMS.

6. Regenerate LNs together with the DTCS/DIRIM of taxpayers who transferred registration.

B. Audit Information Tax Exemption and Incentives Division

1. Spell out the parameters for the issuance and deployment of 2006 LNs based on the policy direction of top management for approval of the CIR.

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

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

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

5. Receive the 2006 LN packages from SOD and effect deployment to the LN Task Force.

6. Receive from LN Task Force and RDOs the LNs of transferred taxpayers for validation and refer to SOD for regeneration.

7. Receive from LN Task Force the LNs recommended for cancellation/closure to LNMS for review and evaluation, and forward the same to ACIR-AS for approval thereof.

8. Receive from LN Task Force Annex "E".

9. Perform overall monitoring, via the IDP, of LNs issued based on real-time online updates provided by the LN Task Force/RDO and other concerned offices granted access rights and privileges.

10. Provide top management with consolidated reports on LN status and collections as may be required.

C. LN Task Force

1. Acknowledge, in writing or via e-mail, receipt of directive from the ACIR-AS for downloading and printing of the 2006 LN packages from the IDP.

2. Download from the IDP the 2006 LN packages consisting of the following:

    a. List of taxpayers issued 2006 LNs sorted by revenue region/RDO;
    b. System-generated LNs;
    c. DTCS;
    d. DIRIM.

3. Print the contents of the 2006 LN packages within three (3) days from downloading of the same or receive from AITEID 2006 LN packages if LN Task Force channel is not yet available in the IDP.

4. The Head of the LN Task Force shall assign the LNs to the ROs for appropriate action, e.g., review, evaluate and validate the discrepancies, and serve them personally to the concerned taxpayers or though registered mail with Registered Return Card, together with the DTCS/DIRIM.

5. 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 RO assigned to handle the LN;
f. Date of Assignment;
g. Remarks.

6. Refer to AITEID LNs of transferred taxpayers for regeneration.

7. Forward to AITEID LNs recommended for cancellation/closure to LNMS for review and evaluation.

8. Receive from the RDOs the received copies of the LNs served and unserved to taxpayers together with the attachments.

9. Issue a *Follow-up Letter* (Annex "B") if the taxpayer fails to respond within fifteen (15) days from receipt of LN.

10. Act on all protests by the taxpayers within the thirty (30)-day period after receipt of the LN.

11. If after fifteen (15) days from receipt of *Follow-up Letter*, no response was received from the taxpayer or he fails to submit the required documents after filing his protest within the thirty (30)-day period after receipt of the LN, prepare issue-based LA to cover specifically *"Income and Value Added Taxes Due to Discrepancy Reflected in the LN"* for signature of DCIR-OG/CIR thru ACIR-AS. Cause the service of *Notice for Informal Conference* together with approved LA to the taxpayer. If taxpayer fails to settle his income and value added tax liabilities resulting from LN discrepancy within fifteen (15) days from receipt of *Notice for Informal Conference*/LA, endorse the docket to ODCIR-OG/OCIR thru OACIR-AS for issuance of PAN or FAN, as the case may be, in accordance with RR No. 12-99.

12. If the taxpayer interposes no objection to the discrepancies in the LN and agrees to pay the required taxes within thirty (30) days from date of receipt thereof, collect the basic income and value added taxes without interest and penalties using the formulas prescribed in Annexes "C, "C-1"or "C-2"(Computation Sheets), as the case may be. Require him to execute an "Agreement Form". If payment will go beyond the 30-day period, collect the total amount due with the corresponding interests and penalties. The payment shall be made using BIR Form No. 0611-A.

13. Receive from taxpayer who refutes the accuracy of the figures in the LN (due to erroneous encoding or due to timing differences) documentary

proofs, reconciliation schedules, etc. in support of his arguments within the thirty (30)-day period from receipt of the LN. Evaluate, review and compute the deficiency income and value added taxes based on the corrected/adjusted taxable base plus increments. If there are no documentary proofs or there was incomplete documentary requirements submitted by the taxpayer within the prescribed period in support of his protest, follow the procedures under Number 12 of this Item.

14. Receive from taxpayer Application for Installment Payment (Annex "D"). Evaluate, review and approve the same if it is in accordance with the conditions under 1st paragraph of Item III (11) hereof. However, if there is a deviation from the payment scheme under the same paragraph, prepare recommendation for approval/disapproval of the same by the ACIR-AS if the amount payable is over five hundred thousand pesos (P500,000.00) up to ten million pesos (P10.0M), or by the DCIR-OG if the amount payable is over ten million pesos (P10.0M). The payment shall be made using BIR Form No. 0611-A.

15. Receive dockets from the ODCIR-OG/OCIR thru OACIR-AS to act on protest by taxpayers requesting reinvestigation relative to the LN cases already issued PAN or FAN, as the case may be.

16. Forward to the ODCIR-OG/OCIR through the OACIR-AS tax dockets within ten (10) days after payment of the deficiency tax(es) for approval thereof.

17. Prepare and submit Monthly Collection and Status Report on Letter Notices for TY _____ (Annex "E") to OACIR-AS, Attention: AITEID, within ten (10) days following the close of each month.

18. Monitor and keep track of payments of taxpayers with approved requests for installment payments. In case of default by taxpayer of any installment payment, collect the balance immediately plus the corresponding interests and penalties without prior notice to taxpayer.

19. Follow, wherever applicable, the procedures prescribed under RMO Nos. 30-2003, 42-2003, 24-2004 and 34-2004, as amended by RMO Nos. 46-2004, 32-2005 and 21-2006, insofar as the verification of the actions on LN discrepancy are concerned.

20. Provide real-time online updates on the status of all LNs via the IDP based on access rights and privileges granted to the LN Task Force.

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

D. Revenue Region (Office of the Regional Director)

1. Receive from LN Task Force LNs of taxpayers that cannot be located for appropriate action, i.e., to exhaust all efforts to locate the whereabouts of these taxpayers (e.g., MERALCO, telephone directories, etc.)

2. Refer to the concerned RDO the above-mentioned LNs for appropriate action.

3. Monitor compliance by the RDO, in providing online real-time updates on LN status.

4. Provide online updates on the status of all LNs via the IDP based on the system access rights and privileges granted to the ORD.

E. Revenue District Office

1. Received from the Regional Director the LNs of taxpayers that cannot be located to effect service thereof by exhausting all efforts to locate their whereabouts (e.g., MERALCO, telephone directories, etc.).

2. Forward to LN Task Force LNs already served on the following day after service thereof and return those that remain unserved immediately after final determination that the taxpayer cannot be located.

3. Provide real-time online updates on the status of all LNs referred by and returned to the LN Task Force via the IDP based on access rights and privileges granted to the RDO.

F. Assessment Service

1. Receive from AITEID the reviewed and validated LNs recommended for cancellation/closure to LNMS for approval/disapproval.

2. Recommend to the DCIR-OG/CIR the approval of issuance of an LA to cover specifically *"Income and Value Added Taxes Due to Discrepancy Reflected in the LN"*.

3. Recommend to DCIR-OG/CIR the approval of issuance of PAN/FAN in accordance with the provisions of RR No. 12-99 of LN dockets received from LN Task Force after evaluation and review.

4. Receive from LN Task Force LN dockets with reports on recommendations of applications on requests for installment payments and

approve/disapprove the same if amount payable is over five hundred thousand pesos (P500,000.00) up to ten million pesos (P10.0M).

5. Forward to ODCIR-OG LN dockets with recommendation for approval/disapproval of Application for Installment Payment if the amount payable is over ten million pesos (P10.0M).

6. Forward tax dockets referred by LN Task Force after review and evaluation thereof to the ODCIR-OG/OCIR for its approval.

7. Provide online updates on the status of all LNs via the IDP based on the system access rights and privileges granted to the AS.

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

G. Office of the Deputy Commissioner – Operations Group

1. Receive from the OACIR-AS the LN dockets with reports on recommendations of applications on requests for installment payments and approve/disapprove the same if amount payable is over ten million pesos (P10.0M).

2. Approve and sign LA to cover specifically *"Income and Value Added Taxes Due to Discrepancy Reflected in the LN"* as recommended by the LN Task Force/OACIR-AS.

3. Approve and sign PAN/FAN forwarded by LN Task Force thru OACIR-AS in accordance with the provisions of RR No. 12-99.

4. Receive from OACIR-AS tax dockets for final review, evaluation and approval thereof.

5. Monitor compliance by the concerned offices in providing online real-time updates on LN status.

H. Office of the Commissioner

1. Approve and sign LA (in the absence of DCIR-OG) to cover specifically *"Income and Value Added Taxes Due to Discrepancy Reflected in the LN"* as recommended by the LN Task Force/OACIR-AS.

2. Approve and sign PAN/FAN (in the absence of DCIR-OG) forwarded by LN Task Force in accordance with the provisions of RR No. 12-99.

3. Receive from OACIR-AS tax dockets (in the absence of DCIR-OG) for review, evaluation and approval thereof.

4. Monitor compliance by the concerned offices in providing online real-time updates on LN status.

V. REPEALING CLAUSE

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

VI. EFFECTIVITY

This Order shall take effect immediately.

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