REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

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September 27, 2013

REVENUE REGULATIONS NO. 17-2013

SUBJECT: Preservation of Books of Accounts and Other Accounting Records

TO : All Internal Revenue Officers and Others Concerned

Pursuant to the provisions of Section 244, in relation to Sections 5, 6, 203, 235, and 222 of the National Internal Revenue Code of 1997 (NIRC), as amended, these Regulations are hereby promulgated to clarify the retention period and to prescribe the guidelines on the preservation of books of accounts and other accounting records.

SECTION 1. BACKGROUND. — In general, all books, registers, records, vouchers, and other supporting papers and documents prescribed by the Bureau of Internal Revenue (BIR), and other records kept by taxpayers shall be preserved intact, unaltered, and unmutilated. The same shall be kept at all times in the place of business of the taxpayer, who shall produce them for examination or deliver them or any of them for inspection outside of his/its place of business upon demand of any internal revenue officer (*Section 21 of Revenue Regulations No. V-1*).

Section 235 of the NIRC provides:

> "SECTION 235. *Preservation of Books of Accounts and Other Accounting Records.* — All the books of accounts, including the subsidiary books and other accounting records of corporations, partnerships, or persons, shall be preserved by them for a period beginning from the last entry in each book until the last day prescribed by Section 203 within which the Commissioner is authorized to make an assessment. xxx
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> xxx
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> Any provision of existing general or special law to the contrary notwithstanding, the books of accounts and other pertinent records of tax-exempt organizations or grantees of tax incentives shall be subject to examination by the Bureau of Internal Revenue for purposes of ascertaining compliance with the conditions under which they have been granted tax exemptions or tax incentives, and their tax liability, if any." (Underscoring supplied)

In relation to Section 235 of the NIRC, Section 203 of the same Code provides:

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"SECTION 203. *Period of Limitation Upon Assessment and Collection.* — Except as provided in Section 222, internal revenue taxes shall be assessed within three (3) years after the last day prescribed by law for the filing of the return, and no proceeding in court without assessment for the collection of such taxes shall be begun after the expiration of such period: *Provided*, That in a case where a return is filed beyond the period prescribed by law, the three (3)-year period shall be counted from the day the return was filed. For purposes of this Section, a return filed before the last day prescribed by law for the filing thereof shall be considered as filed on such last day." (Underscoring supplied)

The above provisions imply that the records of the taxpayer must be preserved for a period of three (3) years from the date of the last entry made thereon. On the other hand, the following shall be noted:

First, Section 203 also refers to Section 222 of the NIRC which provides for exceptions to the three (3)-year period of limitation of assessment. Section 222 pertinently provides:

"SECTION 222. Exceptions as to Period of Limitation of Assessment and Collection of Taxes. —

(a) In the case of a false or fraudulent return with intent to evade tax or of failure to file a return, the tax may be assessed, or a proceeding in court for the collection of such tax may be filed without assessment, at any time within ten (10) years after the discovery of the falsity, fraud or omission: *Provided*, That in a fraud assessment which has become final and executory, the fact of fraud shall be judicially taken cognizance of in the civil or criminal action for the collection thereof.

(b) If before the expiration of the time prescribed in Section 203 for the assessment of the tax, both the Commissioner and the taxpayer have agreed in writing to its assessment after such time, the tax may be assessed within the period agreed upon. The period so agreed upon may be extended by subsequent written agreement made before the expiration of the period previously agreed upon.

xxx" (Underscoring supplied)

Thus, a taxpayer's accounting records shall be needed beyond the three (3)-year period of limitation of assessment if he/it is investigated by the BIR for any falsity, fraud or omission in the returns. In such case, the investigation would be conducted "within ten (10) years after the discovery of the falsity, fraud or omission." Further, the taxpayer's accounting records would also be needed beyond the three (3)-year period of limitation if, before the expiration thereof, both the Commissioner or his duly authorized representative and the taxpayer have agreed in writing (also known as the Waiver of the Statute of Limitations) to its assessment and/or collection after the said period.

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Second, if there is a pending tax case, protest or claim for tax credit/refund of taxes, and the books and records concerned are material to the case, then such books and records should be kept until the case is finally resolved.

Finally, the books of accounts and other pertinent records of tax-exempt organizations or grantees of tax incentives are subject to periodic examination by the BIR for purposes of ascertaining whether they have been complying with the conditions under which they have been granted tax exemption or tax incentives and their tax liability, if any.

The reason for requiring the books of accounts to be preserved is to ensure that all taxes due to the government may be readily and accurately ascertained and determined any time of the year. As explained above, the right of the BIR to examine and/or inspect books of accounts and other accounting records of taxpayers may extend beyond the three (3)-year period of limitation of assessment.

On the other hand, from the point of view of taxpayers on the receiving end of regular or extraordinary audits and assessments, they must ensure that their books of accounts and other accounting records are available for submission in support of their defenses and aid in the resolution of the cases.

In view of the foregoing, it is in the best interest of both the government and the taxpayers that books of accounts and accounting records are retained for a longer period of ten (10) years.

SECTION 2. RETENTION PERIODS. — All taxpayers are required to preserve their books of accounts, including subsidiary books and other accounting records, for a period of ten (10) years reckoned from the day following the deadline in filing a return, or if filed after the deadline, from the date of the filing of the return, for the taxable year when the last entry was made in the books of accounts.

The term "*other accounting records*" includes the corresponding invoices, receipts, vouchers and returns, and other source documents supporting the entries in the books of accounts. They should also be preserved for a period of ten (10) years counted from the date of last entry in the books to which they relate.

The term "*last entry*" refers to a particular business transaction or an item thereof that is entered or posted last or latest in the books of accounts when the same was closed.

The foregoing notwithstanding, if the taxpayer has any pending protest or claim for tax credit/refund of taxes, and the books and records concerned are material to the case, the taxpayer is required to preserve his/its books of accounts and other accounting records until the case is finally resolved.

Finally, unless a longer period of retention is required under the NIRC or other relevant laws, the independent Certified Public Accountant (CPA) who audited the records and certified the financial statements of the taxpayer, equally as the taxpayer, has the responsibility to maintain and preserve copies of the audited and

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certified financial statements for a period of ten (10) years from the due date of filing the annual income tax return or the actual date of filing thereof, whichever comes later.

SECTION 3. EXAMINATION AND INSPECTION. — All books, registers and other records, and vouchers and other supporting papers required by the BIR shall be kept at all times at the place of business of the taxpayer, subject to inspection by any internal revenue officer, and upon demand, the same must be immediately be produced and submitted for inspection (*Section 20 of Revenue Regulations No. V-1).* They may be examined and inspected for purposes of regular audit or extraordinary audit, requests for exchange of information by a foreign tax authority under Sections 6 and 71 of the NIRC, and in the exercise of the Commissioner's power to obtain information under Section 5 of the NIRC, among others.

Examination and inspection of books of accounts and other accounting records shall be done in the taxpayer's office or place of business or in the office of the BIR.

SECTION 4. PENALTIES. — Any violation of the provisions of these regulations shall be subject to penalties provided in Sections 266, 275, and other pertinent provisions of the NIRC; and Section 6 of Republic Act No. 10021 (the "*Exchange of Information on Tax Matters Act of 2009*").

SECTION 5. REPEALING CLAUSE. — The provisions of all internal revenue issuances as well as rulings inconsistent herewith are hereby amended or revoked accordingly.

SECTION 6. EFFECTIVITY. — These Regulations shall take effect fifteen (15) days after its publication in at least two (2) newspapers of general circulation.

CESAR V. PURISIMA
Secretary of Finance

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Recommending Approval:

KIM S. JACINTO-HENARES
Commissioner of Internal Revenue

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