

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

May 13, 2002

REVENUE MEMORANDUM ORDER NO. 13-2002

SUBJECT : Audit/Investigation of Year 2000 Tax Returns of Taxpayers Under the Jurisdiction of the Regional Office

TO : All Internal Revenue Officers and Officials Concerned

I. Objectives

This Order is issued:

1. To prescribe uniform policies, guidelines and procedures in the audit of 2000 tax returns by the Revenue District Offices (RDO); and
2. To enhance taxpayer's voluntary compliance by encouraging payment of correct amount of internal revenue taxes thru quality audit of tax returns.

II. Coverage

This Order shall cover the audit/investigation of internal revenue tax returns for year 2000 except tax returns of taxpayers who have availed of the Voluntary Assessment Program (VAP) and were issued or entitled to be issued Certificate of Qualification granting the privilege of last priority in the audit/investigation unless there is a claim for tax credit/refund or there is strong evidence or findings of understatement in the payment of the taxpayer's correct tax liability by more than thirty percent (30%) as provided under Sec. 2 of Revenue Regulations (RR) No. 8-2001, as amended by RR No. 10-2001. If the audit/investigation of those who have availed of the VAP so warrants, the Letter of Authority (LA)/Audit Notice (AN) shall be signed by the Commissioner of Internal Revenue.

III. Selection Criteria

- A. Unless entitled to the benefits provided in RR 8-2001, as amended, LAs/ANs shall be issued to cover the audit/investigation of taxpayers falling under the following selection criteria:
 1. Mandatory:
 - 1.1 Taxpayers with claims for tax credit/refund involving Value-Added Tax (VAT) and Income Tax where the amount claimed exceeds ₱ 100,000.00 except refund of excess income tax on compensation income which is governed by a separate revenue memorandum order;

1.2 Taxpayers undergoing merger/consolidation/split-up/spin-off, temporary cessation of operation and other types of corporate reorganizations.

(The audit shall cover all internal revenue taxes unless said audit is exempted under existing regulations in the light of the prevailing or surrounding circumstances to the case. Moreover, the audit shall also cover compliance with the provisions of RR No. 18-2001 dated November 13, 2001.)

1.3 Taxpayers found understating their correct sales/income by 30% or more as a result of authorized surveillance/stocktaking activities.

2. Priority Target Taxpayers who have not availed of the VAP

2.1 Top Priority Taxpayers

2.1.1 Tax returns with excess credits carried over;

2.1.2 Taxpayers with negative (excess input tax)/excess VAT payment as of the 4th/last quarter of 2000;

2.1.3 Estate tax returns with gross estate of ₱ 10,000,000.00 or more;

2.1.4 Taxpayers who are retiring from business with gross assets above ₱ 10,000,000.00;

2.1.5 Taxpayers who filed break-even returns or returns showing net loss for two consecutive years;

2.1.6 Taxpayers whose tax due/VAT payable or VAT paid for taxable year 2000 is less than that of the immediately preceding year;

2.1.7 Taxpayers with income tax due of less than 1% of gross sales/revenues or VAT paid of less than 2% of gross sales/revenues;

2.1.8 Taxpayers with asset growth but reported net loss;

2.1.9 Taxpayers who availed of Net Operating Loss Carry-Over (NOLCO);

2.1.10 Taxpayers with obvious basic tax deficiency amounting to P100,000.00 based on Third Party Information; and

2.1.11 Local Government Units (LGUs) and National Government Agencies (NGAs)

- B. Unless entitled to the benefits provided in RR 8-2001, as amended, verification/processing of the following cases shall be covered by Tax Verification Notices (TVNs):
1. Cases below the threshold as defined under Sections III.A.1.1.1, A.2.2.1.2.1.3 and A.2.2.1.2.1.4 of this Order;
 2. Claims for tax credit/refund of the following cases, regardless of amount:
 - 2.1 Tax refund/credit of excise tax under Title VI of the NIRC;
 - 2.2 Erroneous/double payment of withholding tax;
 - 2.3 Erroneous/double application of tax rates;
 - 2.4 Erroneous/double payment of CGT arising from stock transaction/real property transaction;
 - 2.5 Erroneous/double payment of DST; and
 - 2.6 Other erroneous payment of taxes.
 3. Protested cases/cases for reinvestigation;
 4. Donor's tax cases;
 5. Capital gains tax cases/expanded withholding tax cases/documentary stamp tax cases on sale or transfers of real property and/or shares of stocks not traded through the local stock exchange;
 6. Taxpayers with obvious basic tax deficiency/delinquency amounting to P100,000.00 or more based on the face of the returns/financial statements; and
 7. All domestic and resident foreign corporations not selected for issuance of LA/AN. Said cases shall be subjected to office audit, paying particular attention to the verification of the applicability of the minimum corporate income tax (MCIT) only. No fieldwork shall be conducted by the Revenue Officers (ROs) in relation to this assignment. However, as part of office audit activity, the RO may verify documents that are pertinent to the correct determination of the taxpayer's gross income subject to the 2% MCIT.

IV. Policies and Procedures

1. The Revenue District Officers shall draw a list of taxpayers for issuance of LA/AN under this Order following the format prescribed under Annex "A" hereof.
2. The Revenue District Officers shall submit the list to the Regional Director on or before May 17, 2002 for approval/disapproval. Copies of the aforesaid approved/disapproved list shall be submitted, on or before May 20, 2002, by the Regional Director to the Deputy Commissioner-Operations Group (DCIR-OG) for evaluation as to the correctness of the action of the subordinate officials. The DCIR-OG shall forward copy thereof to the Assistant Commissioner-Assessment Service

(ACIR-AS) for recording purposes as well as for other appropriate action, and to the Assistant Commissioner-Inspection Service (ACIR-IS), if warranted.

LAs/ANs may already be issued once the list of taxpayers chosen to be audited has been approved. The DCIR-OG may, however, order cancellation of LA/AN if upon evaluation of the submitted list it is found out that a violation of this RMO has been committed.

3. The LA/AN shall state the criterion/criteria used in selecting the audit candidate.
4. Any request to audit a taxpayer not included in the abovementioned list of criteria shall be subject to the approval of the Commissioner. The request shall state the basis/bases thereof and shall be accompanied by xerox copy of supporting documents, if feasible.
5. All LAs/ANs shall be approved and signed by the Regional Director. However, the DCIR-OG may approve and sign LAs/ANs for regional cases if the investigation is to be conducted by the Regional Task Force upon recommendation of the Regional Director stating the reason for such recommendation or request.
6. The DCIR-OG/Regional Director shall not issue LAs/ANs on tax returns that do not match the selection criteria outlined in this Order unless prior written approval is secured from the Commissioner. For this purpose, a written justification for the request to audit a particular taxpayer or group of taxpayer shall be submitted by the Regional Director to the Commissioner, through the DCIR-OG, for approval.
7. The initial workload of every RO shall be a minimum of ten (10) and a maximum of twenty (20), except for cases under mandatory audit which will not be covered by the required maximum workload. In no case shall the number of cases handled by a RO exceed twenty (20) cases at any one time, subject to replenishment after the submission of the report of investigation/closure of each case.
8. One LA/TVN should be issued for each taxable year or period except for the following:
 - a. Refund cases where the letter request of taxpayers covers more than one year; and
 - b. Request for tax refund/credit of excise tax covered under Section III.B.2.2.1 where one TVN shall be issued for every request.
9. Each LA/AN is counted as one case of the RO assigned to the case except for LA/AN assigned to a group of ROs which shall be counted to the lead examiner only.
10. All pending cases covered by LAs/ANs as of the effectivity of this Order shall be counted as part of the initial workload of the RO.
11. Old cases pending in the hands of ROs, heads of investigating offices or heads of Legal/Prosecution Division, for so long a time, in violation of applicable rules and

orders, shall be subjected to investigation/verification and the revenue personnel involved may be the object of appropriate sanctions/penalties.

12. The RO shall, in no case, be given additional LA/AN or TVN if he has case/s that remain unreported for so long a time even if he has not reached the maximum workload allowed in this Order.
13. Cases for reinvestigation/protected cases shall not be assigned to the same RO who handled the original investigation.
14. Cases to be covered by LAs/ANs shall be classified according to gross assets or gross sales/receipts as of December 31, 2000 based on the following:

<i>Case Classification</i>	<i>Gross Sales/Receipts</i>	<i>Gross Assets</i>
Small	Not more than ₱ 5,000,000.00	Not more than ₱ 10,000,000.00
Medium	₱ 5,000,000.01 - ₱ 50,000,000.00	₱ 10,000,000.01 - ₱ 100,000,000.00
Large	₱ 50,000,000.01 - ₱ 100,000,000.00	₱ 100,000,000.01 - ₱ 400,000,000.00
Very Large	Over ₱ 100,000,000.00	Over ₱ 400,000,000.00

15. Reports of investigation of all cases covered by LAs/ANs/TVNs shall be submitted by the RO within the following prescribed number of calendar days from the date of LAs/ANs/TVNs:

	Case Classification	No. of Days
a.	Very Large	120
b.	Large	90
c.	Medium	60
d.	Small/TVN (except TVNs for refund cases and one-time transaction cases which are covered by separate RMOs)	30

16. Cases covered by this RMO as well as those audited in year 2001 selected by the Commissioner or Deputy Commissioner-Operations Group (DCIR-OG) or Assistant Commissioner-Inspection Service (ACIR-IS) for post review shall be forwarded to the selecting Office within ten (10) days from receipt of the order.
17. A monthly report of closed audit/investigation cases, authorized under LAs/ANs (see Annex "B" for the format) or TVNs (see Annex "C" for the format), shall be submitted to the ACIR-AS on or before the 10th day of the following month, copy furnished the DCIR-OG.

18 A monthly “List of LAs/ANs Issued” or “List of TVNs Issued” shall still be submitted to the ACIR-AS not later than the 10th day of the following month, copy furnished the DCIR-OG.

19. All applicable guidelines and procedures under the existing revenue issuances on the assignment of cases, submission of reports of investigation and reporting requirements shall be strictly observed by all concerned, unless amended by latter issuances.

IV. Repealing Clause

This Order supersedes all revenue issuances or portions thereof inconsistent herewith.

V. Effectivity

This Order shall take effect immediately.

(Original Signed)
LILIAN B. HEFTI
Deputy Commissioner of Internal Revenue
Officer-In-Charge