

# Philippines BIR audit procedures

## ( *Source: BIR* )

1. When does the audit process begin? The audit process commences with the issuance of a Letter of Authority to a taxpayer who has been selected for audit.
2. What is a Letter of Authority? The Letter of Authority is an official document that empowers a Revenue Officer to examine and scrutinize a Taxpayer's books of accounts and other accounting records, in order to determine the Taxpayer's correct internal revenue tax liabilities.
3. Who issues the Letter of Authority? Letter of Authority, for audit/investigation of taxpayers under the jurisdiction of National Office, shall be issued and approved by the Commissioner of Internal Revenue, while, for taxpayers under the jurisdiction of Regional Offices, it shall be issued by the Regional Director.
4. When must a Letter of Authority be served? A Letter of Authority must be served to the concerned Taxpayer within thirty (30) days from its



date of issuance, otherwise, it shall become null and void. The Taxpayer shall then have the right to refuse the service of this LA, unless the LA is revalidated.

5. How often can a Letter of Authority be revalidated? A Letter of Authority is revalidated through the issuance of a new LA. However, a Letter of Authority can be revalidated.

Only once, for LAs issued in the Revenue Regional Offices or the Revenue District Offices; or Twice, in the case of LAs issued by the National Office.

Any suspended LA(s) must be attached to the new LA issued (RMO 38-88).

6. How much time does a Revenue Officer have to conduct an audit? A Revenue Officer is allowed only one hundred twenty (120) days from the date of receipt of a Letter of Authority by the Taxpayer to conduct the audit and submit the required report of investigation. If the Revenue Officer is unable to submit his final report of investigation within the 120-day period, he must then submit a Progress Report to his Head of Office, and surrender the Letter of Authority for revalidation.

7. How is a particular taxpayer selected for audit? Officers of the Bureau (Revenue District Officers, Chief, Large Taxpayer Assessment Division, Chief, Excise Taxpayer Operations Division, Chief, Policy Cases and Tax Fraud Division) responsible for the conduct of audit/investigation shall prepare a list of all taxpayer who fall within the selection criteria prescribed in a Revenue Memorandum Order issued by the CIR to establish guidelines for the audit program of a particular year. The list of taxpayers shall then be submitted to their respective Assistant Commissioner for pre-approval and to the Commissioner of Internal Revenue for final approval. The list submitted by RDO shall be pre-approved by the Regional Director and finally approved by Assistant Commissioner, Assessment Service (RMOs 64-99, 67-99, 18-2000 and 19-2000).

8. How many times can a taxpayer be subjected to examination and inspection for the same taxable year? A taxpayer's books of accounts shall be subjected to examination and inspection only once for a taxable year, except in the following cases:

- \* When the Commissioner determines that fraud, irregularities, or mistakes were committed by Taxpayer;
- \* When the Taxpayer himself requests a re-investigation or re-examination of his books of accounts;
- \* When there is a need to verify the Taxpayer's compliance with withholding and other internal revenue taxes as prescribed in a Revenue Memorandum Order issued by the Commissioner of Internal Revenue.
- \* When the Taxpayer's capital gains tax liabilities must be verified; and
- \* When the Commissioner chooses to exercise his power to obtain information relative to the examination of other Taxpayers (Secs. 5 and 235, NIRC).

9. What are some of the powers of the Commissioner relative to the audit process? In addition to the authority of the Commissioner to examine and inspect the books of accounts of a Taxpayer who is being audited, the Commissioner may also:

Obtain data and information from private parties other than the Taxpayer himself (Sec.5, NIRC); and  
Conduct inventory and surveillance, and prescribe presumptive gross sales and receipts (Sec. 6, NIRC).

10. What is a Notice for Informal Conference ? A Notice for Informal Conference is a written notice informing a Taxpayer that the findings of the audit conducted on his books of accounts and accounting records indicate

that additional taxes or deficiency assessments have to be paid.

If, after the culmination of an audit, a Revenue Officer recommends the imposition of deficiency assessments, this recommendation is communicated by the Bureau to the Taxpayer concerned during an informal conference called for this purpose. The Taxpayer shall then have fifteen (15) days from the date of his receipt of the Notice for Informal Conference to explain his side.

11. Within what time period must an assessment be made? An assessment must be made within three (3) years from the last day prescribed by law for the filing of the tax return for the tax that is being subjected to assessment or from the day the return was filed if filed late. However, in cases involving tax fraud, the Bureau has ten (10) years from the date of discovery of such fraud within which to make the assessment.

Any assessments issued after the applicable period are deemed to have prescribed, and can no longer be collected from the Taxpayer, unless the Taxpayer has previously executed a Waiver of Statute of Limitations.

12. What is "Jeopardy Assessment"? A Jeopardy Assessment is a tax assessment made by an authorized Revenue Officer without the benefit of complete or partial audit, in light of the RO's belief that the assessment and collection of a deficiency tax will be jeopardized by delay caused by the Taxpayer's failure to:

Comply with audit and investigation requirements to present his books of accounts and/or pertinent records, or  
Substantiate all or any of the deductions, exemptions or credits claimed in his return.

13. What is a Pre-Assessment Notice (PAN)? The Pre-Assessment Notice is a communication issued by the Regional Assessment Division, or any other concerned BIR Office, informing a Taxpayer who has been audited of the findings of the Revenue Officer, following the review of these findings. If the Taxpayer disagrees with the findings stated in the PAN, he shall then have fifteen (15) days from his receipt of the PAN to file a written reply contesting the proposed assessment.

14. Under what instances is PAN no longer required? A Preliminary Assessment Notice shall not be required in any of the following cases, in which case, issuance of the formal assessment notice for the payment of the taxpayer's deficiency tax liability shall be sufficient:

\* When the finding for any deficiency tax is the result of mathematical error in

the computation of the tax appearing on the face of the tax return filed by the taxpayer; or

- \* When a discrepancy has been determined between the tax withheld and the amount actually remitted by the withholding agent; or

- \* When a taxpayer who opted to claim a refund or tax credit of excess creditable withholding tax for a taxable period was determined to have carried over and automatically applied the same amount claimed against the estimated tax liabilities for the taxable quarter or quarters of the succeeding taxable year; or

- \* When the excise tax due on excisable articles has not been paid; or

- \* When an article locally purchased or imported by an exempt person, such as, but not limited to, vehicles, capital equipment, machineries and spare parts, has been sold, traded or transferred to non-exempt persons.

## 15. What is a Notice of Assessment/Formal Letter of Demand?

A Notice of Assessment is a declaration of deficiency taxes issued to a Taxpayer who fails to respond to a Pre-Assessment Notice within the prescribed period of time, or whose reply to the PAN was found to be without merit. The Notice of Assessment shall inform the Taxpayer of this fact, and that the report of investigation submitted by the Revenue Officer conducting the audit shall be given due course. The formal letter of demand calling for payment of the taxpayer's deficiency tax or taxes shall state the facts, the law, rules and regulations, or jurisprudence on which the assessment is based, otherwise, the formal letter of demand and the notice of assessment shall be void