

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

May 28, 2009

REVENUE MEMORANDUM ORDER NO. 19-2009

SUBJECT: 2009 Audit Program for Revenue District Offices

TO : All Regional Directors, Revenue District Officers, Chiefs of the
Assessment Divisions of Regional Offices, Other Revenue Officers and
Others Concerned

I. OBJECTIVES

1. To prescribe uniform policies, guidelines and procedures in the audit of 2008 tax returns by Revenue District Offices (RDOs); and
2. To enhance taxpayers' voluntary compliance by encouraging payment of correct amount of internal revenue taxes through the exercise of the enforcement function of the Bureau.

II. COVERAGE

The 2009 Audit Program shall cover the audit/investigation of 2008 internal revenue tax returns, including tax returns of fiscal period taxpayers whose taxable year ended on July 31, 2008 up to June 30, 2009.

III. Selection Criteria

A. Letters of Authority (LAs) shall be issued to cover the audit/investigation of taxpayers falling under the following selection criteria:

1. Mandatory Cases

- 1.1 Taxpayers with claims for income tax refund or issuance of tax credit certificate or income tax returns showing carry-over of excess withholding tax/income tax payments, where the amount of claim or carry-over exceeds One Hundred Thousand Pesos (₱ 100,000.00) and/or where the gross sales/receipts exceed Ten Million Pesos (₱ 10,000,000.00) for taxpayers in Revenue Region Nos. 5, 6, 7 and 8 (Valenzuela, Manila, Quezon City and Makati), except RDO Nos. 35 – Romblon, 36 – Puerto Princesa and 37 – San Jose, Occidental Mindoro, and amount of claim/carry-over exceeding One Hundred Thousand Pesos (₱ 100,000.00) and/or where the gross sales/receipts exceed Five Million Pesos

(₱ 5,000,000.00) for all other Regions, including the RDOs herein mentioned as exceptions, which will require the audit/investigation of all internal revenue tax liabilities for the covered period (Selection Code: ITR for tax refund, ITC for tax credit certificate and ITE for income tax returns showing carry-over of excess withholding tax/income tax payments);

- 1.2 Taxpayers with claims for value-added tax (VAT) refund or issuance of tax credit certificate or VAT returns showing excess input tax at the end of the taxable period where the amount exceeds One Hundred Thousand Pesos (₱ 100,000.00), which will require the specific audit/investigation of the VAT liabilities only for the covered period (Selection Code: VTR for VAT refund, VTC for VAT credit certificate and VTE for returns showing excess input tax);
- 1.3 Estate tax returns with other tax liabilities where the gross sales/receipts from business and/or gross estate exceed Ten Million Pesos (₱ 10,000,000.00) for Revenue Region Nos. 5, 6, 7 and 8 (Valenzuela, Manila, Quezon City and Makati), except RDO Nos. 35 – Romblon, 36 – Puerto Princesa and 37 – San Jose, Occidental Mindoro, and gross sales/receipts and/or gross estate exceeding Five Million Pesos (₱ 5,000,000.00) for all other Regions, including the RDOs herein mentioned as exceptions (Selection Code: EOT);
- 1.4 Estate tax returns with no other tax liabilities where the gross estate exceeds Ten Million Pesos (₱ 10,000,000.00) for Revenue Region Nos. 5, 6, 7 and 8 (Valenzuela, Manila, Quezon City and Makati), except RDO Nos. 35 – Romblon, 36 – Puerto Princesa and 37 – San Jose, Occidental Mindoro, and gross estate exceeding Five Million Pesos (₱ 5,000,000.00) for all other Regions, including the RDOs herein mentioned as exceptions (Selection Code: EST);
- 1.5 Request for tax clearance of taxpayers due to retirement/cessation of business with gross assets and/or gross sales/receipts exceeding Ten Million Pesos (₱ 10,000,000.00) which will require the audit/verification of all internal revenue tax liabilities for the immediately preceding year and the year of retirement of the taxpayer pursuant to Section 52 (C) of the Tax Code of 1997 (Selection Code: RET);
- 1.6 Request for tax clearance of taxpayers undergoing merger/consolidation/split-up/spin-off and other types of corporate reorganizations with gross assets and/or gross sales/receipts exceeding Ten Million Pesos (₱ 10,000,000.00) which will require the audit/verification of all internal revenue tax liabilities for the immediately preceding year and the year of corporate reorganization of the taxpayer, specifically, those whose juridical personality will cease (Selection Code: MCS);

2. Top Priority Taxpayers where the gross sales/receipts exceed Five Million Pesos (₱ 5,000,000.00) for Revenue Region Nos. 5, 6, 7 and 8 (Valenzuela, Manila, Quezon City and Makati), except RDO Nos. 35 – Romblon, 36 – Puerto Princesa and 37 – San Jose, Occidental Mindoro and gross sales/receipts exceed Three Million Pesos (₱ 3,000,000.00) for all other Regions, including the RDO herein mentioned as exceptions:

- 2.1 Review Centers (Selection Code: REV);
- 2.2 Corporations accredited by TESDA (Selection Code: TES)
- 2.3 Health providers (Selection Code: HEA)
- 2.4 Hospitals (Selection Code: HOS)
- 2.5 Nursing schools (Selection Code: NUR)
- 2.6 Call Centers (Selection Code: CAL)
- 2.7 Restaurants, food chains and catering services (Selection Code: FOD)
- 2.8 Construction companies (Selection Code: CNS)
- 2.9 Taxpayers engaged in the leasing industry (e.g., Lessors of residential houses/apartments/condominiums and commercial spaces, parking lots, boarding houses, pension houses) (Selection Code: LEA)
- 2.10 Non-stock non-profit corporations/organizations and foundations (Selection Code: NON)
- 2.11 Cooperatives (Selection Code COO)
- 2.12 Lending investors (Selection Code: LEN)
- 2.13 Pawnshops (Selection Code: PAW)
- 2.14 Real estate dealers/developers (Selection Code: REA)
- 2.15 Hotels and other tourism-related establishments, including resort operators (Selection Code: HOT)
- 2.16 Retail/Wholesale Trade (Selection Code: TRD)
- 2.17 Dealers of agricultural products and supplies (Selection Code: AGR)
- 2.18 Logistics providers (e.g., arrastre, stevedoring, freight, trucking and courier services) (Selection Code: LOG)
- 2.19 Contractors of government agencies, instrumentalities, local government units and government corporations (Selection Code: CON)
- 2.20 Taxpayers who failed to submit the required Summary List of Sales and Purchases for at least one (1) quarter (Selection Code: LSP)

3. Other Priority Taxpayers

- 3.1 Taxpayers who are reporting/filing “No Operations” Annual Income Tax Returns (Selection Code: NOP)

Prior to issuance of the LA, the district office shall conduct an ocular inspection to determine whether the business exists and to determine if the volume of business transactions warrants the issuance of a LA.

3.2 Taxpayers with income tax due of less than 2% of gross sales/receipts or total VAT due of less than 3% of gross sales/revenues (Selection Code: LOW)

3.3 Taxpayers reporting net loss or no taxable income in their tax returns (Selection Code: LOS)

3.4 Taxpayers who are included in the nationwide list of Top 20,000 private corporations under the jurisdiction of the respective RDOs (Selection Code: TWO)

4. Revenue District Officer's Discretion (Selection Code: RDO)

The Revenue District Officer is given the opportunity to select taxpayers which do not fall within the guidelines established above but the total selected audit candidates shall not exceed 25% of the total number of taxpayer to be audited by the district office, without including in the basis the number of mandatory cases under item number III.A.1 hereof.

B. Tax Verification Notices (TVNs) shall be issued **only** in the following instances:

1. Cases below the threshold as defined under item numbers III.A.1.1 to A.1.4 hereof;
2. Claims for tax credit/refund of excise tax under Title VI of the NIRC of 1997, as amended, regardless of amount;
3. Claims for tax credit/refund on erroneous/double payment of taxes, regardless of amount;
4. Taxpayers who are retiring from business, undergoing merger/consolidation/split-up/spin-off and other types of corporate reorganizations with gross assets of One Million Pesos (₱ 1,000,000.00) up to Ten Million Pesos (₱ 10, 000,000.00); and
5. Protested cases/cases for reinvestigation.

IV. POLICIES AND PROCEDURES

1. The Revenue District Officer shall draw a list of taxpayers selected for audit under Sections III.A.2 and A.3 hereof, following the format under "Annex A" hereof which was prescribed in Revenue Memorandum Order (RMO) No. 8-2006, "Prescribing the Guidelines and Procedures in the Implementation of the Letter of Authority Monitoring System (LAMS)."

2. The Revenue District Officers shall submit the list to the Regional Director, through the Chief, Assessment Division, for approval/disapproval, copy furnished the Assistant Commissioner, Assessment Service (ACIR-AS). The ACIR-AS may review and evaluate the list to determine compliance with the guidelines set in selecting the taxpayers for audit and in the distribution of cases. If upon evaluation of the submitted list it is found out that a violation has been committed, the ACIR-AS may recommend to the Commissioner, through the Deputy Commissioner-Operations Group (DCIR-OG) the cancellation of the LA.
3. For taxpayers to be audited falling under the mandatory category enumerated under paragraph III.A.1 hereof, the concerned Revenue District Officer shall submit a request for issuance of LAs to the Regional Director indicating therein the name of taxpayer, TIN, selection code, case classification, RO to be assigned to audit and Group Supervisor.
4. Cases selected based on the RDO's discretion under item III.A.4 hereof shall be recommended by the Regional Director for approval of the DCIR-OG before issuance of LAs. The dockets of these cases, whether collected or assessed, may be subject to revalida in the National Office.
5. All LAs shall be prepared, approved and signed by the Regional Director unless otherwise directed by the Commissioner. The Regional Director shall not issue LAs 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 taxpayers shall be submitted by the Regional Director to the ACIR-AS for evaluation and appropriate recommendation to the Commissioner, through the DCIR-OG.
6. The Regional Director shall issue the LA only when the duplicate copy of the tax return of the taxable year to be covered by the LA is attached thereto, except in cases where the taxpayer was found to have failed to file the applicable tax return and pay the corresponding tax due thereon. In cases where no return has been filed, the Regional Director shall assign the case to the Special Investigation Division (SID). In case of dispute or conflict between the RDO and the SID, the issue shall be resolved by the DCIR-OG.
7. For cases falling within the thresholds set in item number III.B hereof, the TVNs shall be signed and issued by the Revenue District Officer.
8. Taxpayers who have been examined for the prior year shall not be investigated for the immediately succeeding period by the same Revenue Officer and/or Group Supervisor unless when there is only one Group Supervisor or at most four (4) Revenue Officers in one district.

9. The policy on the simultaneous investigation of all liabilities of the taxpayer shall be followed. One LA/TVN shall be issued for each taxable year or period to include all internal revenue tax liabilities of the taxpayer and shall remain to be valid and enforceable even without the mark of the BIR dry seal as long as the LA/TVN is authentic and duly issued by the authorized revenue official.
10. Notwithstanding the policies under item nos. 7 and 8. hereof, LAs/TVNs shall be issued for the investigation/verification of the following tax cases:
 - 10.1 Specific audit/verification of claims for VAT refund or issuance of TCC or VAT returns showing excess input tax at the end of the taxable period.
 - 10.2 For estate tax cases with other tax liabilities, three (3) separate LAs shall be issued as follows: one for the estate tax liability, one for other internal revenue tax liabilities covering the year immediately preceding the death of the taxpayer, and another LA for internal revenue tax liabilities covering the short period return. One RO shall be assigned to handle the estate tax liability as well as the other internal revenue tax liabilities of the immediately preceding year and short period return.
 - 10.3 In the issuance of LA/TVN covering the audit/verification of tax liabilities of taxpayers retiring from business, two separate LAs/TVNs shall be issued to the same RO for the audit/verification of the immediately preceding year tax returns and the short period returns.
11. Only Revenue Officers–Assessment Group shall be authorized to conduct audit and investigation of tax cases, whether in a principal or assisting capacity.
12. The initial workload of every RO under this program shall be twenty five (25) cases, excluding mandatory audit cases covered by LAs/TVNs and cases with LNs only. In no case shall the number of cases handled by a RO exceed twenty five (25) cases at any one time, subject to replenishment after the submission of the report of investigation/closure of each case.
13. All pending cases covered by LAs as of the effectivity of this Order shall be counted as part of the initial workload of the RO.
14. Cases to be covered by LAs shall be classified according to either gross assets or gross sales/receipts as of the end of the applicable taxable period based on the following:

Case Classification	Gross Sales/Receipts	or	Gross Assets
Small	Not more than P 5,000,000.00		Not more than - P 10,000,000.00
Medium	P5,000,000.01 -P 50,000,000.00		P 10,000,000.01 - P100,000,000.00
Large	P50,000,000.01– P100,000,000.00		P100,000,000.01 – P 200,000,000.00

Case Classification	Gross Sales/Receipts	or	Gross Assets
Very Large	Over - P100,000,000.00		Over - P200,000,000.00

15. The concerned Revenue District Officer shall see to it that the cases are equally and fairly distributed among the ROs under his jurisdiction. As much as possible, the number of ROs, tax returns to be investigated and the case classification should be considered in the assignment of cases.
16. Each LA is counted as one case of the RO assigned to the case except for LA assigned to a group of ROs, which shall be counted to the lead examiner only.
17. The RO shall not be given additional LA or TVN if he has case/s that remain unreported beyond the prescribed period to report the case, including revalidated LAs, even if he has not reached the maximum workload allowed in this Order.
18. Old cases pending (e.g., prescribing cases) in the hands of ROs, heads of investigating offices or heads of the Legal Division 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.
19. The policies on the issuance of Certificate Authorizing Registration (CAR), and review of cases pertaining to estate tax cases prescribed under item numbers IV.12 up to IV.16 prescribed under RMO No. 12-2007 shall be followed.
20. Cases returned after review by the Chief, Assessment Division (AD), the Regional Director, or any head of office in the National Office, whenever applicable, for compliance with certain documentary audit requirements or for further conduct of audit to meet some procedural requirements, shall be considered as an addition to his existing workload upon receipt of the returned case or docket. In case the RO's workload exceeded the maximum allowable limit of twenty five (25) cases upon his receipt of the returned cases upon review by higher authority, the excess thereon shall not be considered as a violation of this Order. Returned cases requiring compliance with certain review requirements shall be acted upon and returned to the Chief, AD within thirty (30) days from receipt of the docket from the reviewing office. This shall be strictly observed in order to ensure the conduct of quality audit and that top priority action shall be given by the concerned Revenue Officer on these returned cases

In addition, cases returned to the RO by the Legal Division for continuation of audit/investigation after rendering the desired resolution/opinion on certain legal issues shall likewise be considered as part of his pending inventory or workload.

21. Returned cases for compliance with review or reporting requirements shall be returned to the district office having jurisdiction over the taxpayer for referral to and compliance of the original RO assigned to the case, even if the said RO has

been transferred to another district or regional office. A copy of the list of returned cases with the names of the responsible ROs shall be furnished by the AD to the AS, through the Regional Director. The Revenue District Officer having jurisdiction over the taxpayer shall be responsible for ensuring that the returned case shall be acted upon by the concerned RO within the aforementioned days from receipt of the returned docket. The AD shall also follow up action on the case with the Revenue District Officer where the concerned RO is already assigned.

However, if it is impractical to assign the returned cases to the original ROs who have transferred to another district office due to geographical constraints or other justifiable reasons, the Revenue District Officer may assign the returned cases to other ROs within the district office subject to the approval of the Chief, AD.

22. To facilitate the immediate assessment and collection of possible deficiency taxes that may be uncovered in the conduct of audit/verification of taxpayer's accounting records, the concerned office shall act on cases for issuance of Subpoena Duces Tecum (SDT) within fifteen (15) days from receipt of the docket and shall be signed by the revenue officials authorized per RMO No. 2-2008.
23. Cases for reinvestigation/protested cases shall not be assigned to the same RO who handled the original investigation.
24. Reports of investigation of all cases covered by LAs/TVNs shall be submitted by the RO within the following prescribed number of calendar days from the date of LAs/TVNs:

Case Classification	No. of Days
Cases other than VAT claims for refund/credit :	
Very Large /Large	120
Medium/Small	90
TVN	60
Cases covering claims for VAT refund/credit	120 days from the submission of complete documents

25. In case the report of investigation cannot be rendered within the aforementioned time frame due to constraints attributable to the taxpayer, the RO may request for the revalidation of the LA by preparing a progress report with a valid reason for the request for revalidation, duly noted by the Group Supervisor and approved by the Revenue District Officer. The Revenue District Officer shall transmit the entire docket of the case, including all notices with checklist of documentary

requirements served to the taxpayer, to the Regional Director for revalidation of the LA. The previously issued LA shall be stamped “Revalidated on _____” and shall be signed by the Regional Director.

The revalidation of LA shall give rise to the extension of the period within which the concerned RO shall submit the required report of investigation to higher authorities for review and approval without the imposition of applicable administrative sanctions. Depending on the classification of the pending tax case, said extension period shall be equivalent to the original prescribed number of days within which to report the case under existing revenue issuance. Failure on the part of the RO to request for revalidation or the expiration of the “revalidation period” does not nullify the LA; thus, the investigation shall be pursued by the RO and shall render a report on the investigation as required in this Order. However, this shall be considered as a ground for the imposition of disciplinary action and demerit in the performance rating of the concerned RO.

26. The Revenue District Officer shall transmit to the Assessment Division the official duplicate copies of tax returns not selected for audit under this Order not later than August 31, 2009. These transmitted returns shall be the basis for audit selection by the Assessment Division under the Office Audit Program prescribed under RMO No. 13-2009.

27. Any violation of the foregoing instructions by any revenue officer or official shall be a ground for the imposition of appropriate administrative sanctions/penalties.

V. REPORTING REQUIREMENTS

The following reports are required for submission to the Assessment Service every 10th of the following month:

1. For Regional Directors

- 1.1 Monthly List of Letters of Authority(LAs) Issued (Annex B)
- 1.2 Monthly Report of Tax Credit/Refund Approved and Granted (Annex C)

2. For the Revenue District Officers

- 2.1 Monthly Report of Tax Verification Notices (TVNs) Issued (Annex D)
- 2.2 Monthly Status of Letters of Authority Issued and Acted Upon (Annex E)
- 2.3 Monthly Summary of Assessment and Collection Activities (Annex F)
- 2.4 Monthly Report of Cases Verified, Processed and Closed Covered by Tax Verification Notices (Annex G)
- 2.5 Monthly Report on Claims for Tax Refund/Issuance for Tax Credit Certificate Filed (Annex H)
- 2.6 Monthly Report of Tax Credit/Refund Processed (Annex I)

The RDOs shall furnish the concerned Regional Directors with a copy of the abovementioned reports.

3. Reports prescribed under RMO No. 67-99 shall continuously be submitted to the Assessment Service:

- 3.1 For Regional Directors

- 3.1.1 Regional Accomplishment Report on Assessment Activities

- 3.2 For Chiefs, Assessment Division

- 3.2.1 Monthly Report on Cases/Dockets Received from Investigating Offices for Review

- 3.2.2 Monthly Report on Reviewed Cases

- 3.2.3 Monthly Summary of Taxes Assessed

VII. REPEALING CLAUSE

All issuances inconsistent herewith are hereby modified or repealed accordingly.

VIII. EFFECTIVITY

This Order shall take effect immediately

(Original Signed)
SIXTO S. ESQUIVIAS IV
Commissioner of Internal Revenue