



REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

Making the Public Know

February 2, 2010

REVENUE MEMORANDUM ORDER No. 11-2010

SUBJECT : Guidelines for the monitoring of “Big Ticket Items”

TO : All Internal Revenue Officials, Employees and Others Concerned

I. BACKGROUND AND OBJECTIVE

Transactions that are significant in size and volume generally have substantial tax consequences. Such transactions, which are herein referred to as “Big Ticket Items” (BTI), can result in a treatment that requires the payment of taxes (either immediate or deferred), or that may result in the exemption from taxation of portion or the entire transaction. It is to the interest of both the taxpayer and the Bureau of Internal Revenue (BIR) that the circumstances and the details of these BTI are immediately evaluated by the BIR for determination of what should be the proper tax treatment.

This Order is being issued to prescribe the policies and guidelines on the monitoring, review and determination of the tax consequences of “Big-Ticket Items”.

II. POLICIES AND GUIDELINES

The following policies and guidelines shall be observed:

1. A transaction is considered as a “Big-Ticket Item” if the amount involved exceeds Two Hundred Million Pesos (P200,000,000.00). This threshold amount is considered on a per single and unrelated event or transaction basis, and shall not take into account the summation or the total of several unrelated and multiple events or transactions. The guidelines prescribed in items (3) to (7) below shall apply to these BTI cases.

EXAMPLE 1: Corporation A invested P150 million on an export venture on April 12, 2010. On May 16, 2010, it invested P120 million on the purchase of a piece of real

property. In this example, there are two separate unrelated events or transactions which are both below the threshold amount of P200 million, and hence, these transactions are not considered as BTI.

EXAMPLE 2: Corporation B implemented an early retirement program for its senior executives which involved the payment of P20 million to 30 executives who availed of this program. Even though the transaction consisted of payment of amounts lower than the threshold to 30 executives, this transaction can be considered as a single event of related transactions amounting to a total of P600 million; hence this is considered as a BTI.

EXAMPLE 3: Corporation C acquired a manufacturing plant on a “turn key basis” which involved Company Y supplying the equipment amounting to P180 million and Company Z providing the installation services for P40 million. The two contracts are considered as related transactions and since these two contracts amount to P220 million, this is considered as a BTI.

EXAMPLE 4: Corporation D had been purchasing its raw materials from several suppliers in a year with total purchases amounting to P850 million for the year. Company X was the largest supplier having sold P220 million during the year. However, there was no long term commitment contract between Corporation D and Company X and there was no single delivery of over P200 million made by Company X for the particular year. The regular supply of materials of Company X over the year are considered as separate and unrelated events, and hence need not be aggregated to determine if there is a BTI. In this case, the purchase from Company X is not a BTI.

EXAMPLE 5: Corporation E undertook an Initial Public Offering (IPO) and sold P300 million of shares of stocks to thousands of investors who purchased stocks worth not more than one million pesos each. The IPO offering is a single transaction and considered as a BTI.

2. A transaction is also a BTI if this involves a request for ruling filed with the BIR where the amount of the transaction is over one million pesos (P1,000,000). For these cases, the procedures prescribed in item (8) below shall govern.
3. The following offices shall be responsible for the monitoring of BTI:
 - a. Large Taxpayers Service (LTS) – Regular
 - b. LTS – Excise
 - c. Enforcement Service

Information on the occurrence of the BTI can be sourced from media accounts (newspapers, television, etc.), web sites of taxpayers, disclosures to and/or actions from the Securities Exchange Commission, Bangko Sentral ng Pilipinas, Board of Investments, and other government agencies, and other sources.

4. The responsible office must communicate with the concerned taxpayer(s) involved in the “Big-Ticket Item” within five (5) working days from the date of the aforesaid transaction, or from the date of discovery of the transaction. The responsibility for this shall be as follows:
 - a. If the transacting parties are a Large Taxpayer (LT) and a non-Large Taxpayer – the LTS office (either Regular or Excise) having jurisdiction over the LT shall be the one to issue the communication
 - b. If the transacting parties are both non-Large Taxpayers – the Enforcement Service shall be the one to issue the communication
 - c. If the transacting parties are both Large Taxpayers – the Commissioner of Internal Revenue will determine which LTS office will issue the communication

The Assistant Commissioner of the responsible office shall send an Access to Records letter to the taxpayer, using the format prescribed in Annex A. **The submission of the requested documents by the taxpayer within the prescribed deadline must be strictly enforced and failure of the taxpayer to comply should result in the institution of the available sanctions, including the issuance of *subpoena duces tecum*.** It is to be noted that there is no reason for the delay in the submission of documents pertaining to the BTI since these are all expected to be readily available due to the normal full documentation done in these BTI.

All Access to Records letters should have a reference number containing the year of issuance and the chronological number of issuance, i.e., 2010-001 being the reference number of the first issued letter for the year 2010.

5. Upon receipt of the requested documents from the taxpayer, the responsible office shall evaluate the tax consequences of the transaction, to ascertain whether the taxes, if any, on the BTI have been paid correctly and on time, or whether there are issues on the BTI, including if there are any aggressive tax planning or avoidance done in the structuring or documentation of the BTI.
6. A report on the results of the evaluation of the transaction, together with the responsible office's recommendations, must be submitted to the Commissioner of Internal Revenue within fifteen (15) working days from receipt of the documents pertaining to the transaction.
7. In the event that the recommendation is the need for a more thorough verification in the form of an audit / investigation, the appropriate Letter of Authority (LA) for a short audit shall be issued by the Commissioner of Internal Revenue once this is determined to be acceptable.
8. For cases of requests for ruling involving transactions with an amount in excess of One Million Pesos (P1,000,000.00), the BIR legal office receiving the copy of the ruling request shall furnish a copy to the BIR office having jurisdiction over the taxpayer who filed the request for a ruling. Said BIR office shall request for information on this transaction using the Access to Record form, and submit a report on the results of the evaluation to the BIR legal office handling the ruling request not

later than fifteen (15) working days from receipt of the documents. The BIR legal office can now utilize the report for preparing its action on the ruling request.

III. REPEALING CLAUSE

All revenue issuances which are inconsistent with this Order are hereby revoked, modified or amended accordingly.

IV. EFFECTIVITY

This Order shall take effect immediately.

(Original Signed)
JOEL L. TAN-TORRES
Commissioner of Internal Revenue

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HCO/LTB