

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

July 09, 2007

**REVENUE REGULATIONS NO. 7 - 2007**

**SUBJECT : Amending Certain Provisions of Revenue Regulations No. 21-2002, Implementing Section 6(H) of the Tax Code of 1997, Authorizing the Commissioner of Internal Revenue to Prescribe Additional Procedural and/or Documentary Requirements in Connection with the Preparation and Submission of Financial Statements Accompanying the Tax Returns.**

**TO : All Internal Revenue Officers and Others Concerned.**

---

Pursuant to Section 244 of the Tax Code of 1997, as amended, in relation to Section 6(H) of the Same Code, these Regulations are hereby promulgated to amend certain provisions of Revenue Regulations No. 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements accompanying the tax returns.

**SECTION 1. CONTENTS AND FORMAT OF FINANCIAL STATEMENTS TO BE ATTACHED TO THE ANNUAL INCOME TAX RETURN OR INFORMATION RETURN.** – The Financial Statements with accompanying Auditor's Certificate attached to the Annual Income Tax Return, or Annual Information Return for tax exempt persons, as the case may be, to be filed with the Bureau of Internal Revenue, thru its collection agents including Accredited Agent Banks, shall present/state the accounts therein in a very descriptive fashion such that the nature of the specific transactions entered in the accounts are known to the reader. The account titles to be used must be specific and not control accounts which must be completely enumerated in the financial statements and these accounts must conform to the basic framework of the financial reporting standards promulgated by the Financial Reporting Standards Council (FRSC) of the Philippines which are the Generally Accepted Accounting Principles in the Philippines which include Philippine Accounting Standards (PAS) and Philippine Financial Reporting Standards (PFRS) and the refinements introduced thereon in respect to certain types of industries as well as to the rules and requirements of regulatory agencies that have supervision over them such as the Securities and Exchange Commission (SEC), Bangko Sentral ng Pilipinas (BSP), Insurance Commission (IC), etc.

The accounts prescribed in the reports required by the SEC, BSP, IC and other

regulatory bodies shall likewise be the accounts to be used by individual taxpayers who are engaged in business or in the exercise of profession, except for accounts that are peculiar to corporations and other juridical persons.

The Profit and Loss Statement/Income Statement shall show separately by segment (there should be proper labeling), with breakdown of the specific accounts, the following:

**I. Sales/Revenues**

II. Cost of Goods Sold (for seller of goods)/Cost of Services (for seller of services);

III. Selling and Administrative Expenses;

IV. Financial Expenses, if any;

**V. Other Income; and**

**VI. Other Expenses**

**(Note: Items I, IV, V and VI should be fully explained in the Notes to the Financial Statements; Items II and III should be supported by Schedules)**

**SEC. 2. COVERAGE.** – The Financial Statements shall be composed of the following :

- a) Balance Sheet;
- b) Income Statement/Profit and Loss Statement;
- c) Statement of **Changes in Equity, showing either:**
  - All changes in equity
  - Changes in equity, other than those arising from transactions with equity holders acting in their capacity as equity holders;
- d) Statement of **Cash Flow;**
- e) **Notes, comprising a summary of significant accounting policies and other explanatory notes; and**
- e) Schedules attached to the afore-cited statements.

The submission of the above statements is mandatory even if there is no income, retained earnings, etc.

All the financial statements filed with accompanying auditor's certificate as cited above shall show the comparative figures of the current year and the previous year. Thus, Financial Statements with no required Auditors Certificate as enunciated in Sec. 232 of the Tax Code of 1997, as amended, need not be presented in comparative format.

**Moreover, it is the responsibility of the taxpayer to reflect in its books of accounts (i.e., general, subsidiary ledgers, and journals) the adopted/accepted year-end adjusting entries made corollary to the preparation and filing of its audited financial statements and annual income tax returns. Correspondingly, all the necessary working papers prepared by the taxpayer pertinent to the year-end adjustments shall, nevertheless, be made available to the investigating officers of the Bureau upon audit and/or verification.**

**SEC. 3. RESPONSIBILITY OF EXTERNAL AUDITORS.** – Unless a longer period of retention is required under the Tax Code or other relevant laws (e.g. the Philippine Accountancy Act of 2004, etc.), the independent 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 certified financial statements for a period of three (3) years from the due date of filing the annual income tax return or the actual date of filing thereof, whichever comes later. This is in addition to all other responsibilities of the independent CPA under other pertinent provisions of the Tax Code, as amended, and implementing regulations, including generally accepted auditing standards, and applicable jurisprudence.

**SEC. 4. PENAL PROVISIONS** – Any independent Certified Public Accountant who, in his capacity as external auditor, willfully falsifies any report or statement bearing on any examination or audit, or renders a report, including exhibits, statements, schedules or other forms of accountancy work which has not been verified by him personally or under his supervision or by a member of his firm or by a member of his staff in accordance with sound auditing practices, or, certifies financial statements of a business enterprise containing an material misstatement of facts or material omission in respect of the transactions, taxable income, deduction and/or exemption of his client, shall be dealt with in accordance with Section 257 of the Tax Code, as amended, shall be subject to the applicable penalty provisions of RR No. 11-2006.

**SEC. 5. APPLICABILITY OF THESE REGULATIONS.** – These Regulations shall apply to all Income Tax and Information Returns to be filed hereafter.

**SEC. 6. REPEALING CLAUSE.** – All existing rules, regulations and other issuances or portions thereof inconsistent with the provisions of these Regulations are hereby modified, repealed or revoked accordingly.

**SEC. 7. EFFECTIVITY CLAUSE.** – These Regulations shall take effect after fifteen (15) days following complete publication in a newspaper of general circulation in the Philippines.

(Original Signed)  
**MARGARITO B. TEVES**  
Secretary of Finance

Recommending Approval:

(Original Signed)  
**LILIAN B. HEFTI**  
OIC-Commissioner of Internal Revenue