



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

June 30, 2014

**REVENUE MEMORANDUM ORDER NO. 25-2014**

**SUBJECT: Revised Procedures, Policies and Guidelines including the Enhancement in the Format for the Preparation of the “Reports on Drastic Changes in Collection Performance” (BIR Form Nos. 1771A to 1771C)**

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

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**I. BACKGROUND**

Notwithstanding the issuance of several Revenue Memorandum Orders (RMOs), it has been noted that compliance by the Revenue District Offices (RDOs) on the submission of prescribed monthly reports on drastic changes in collection performance as well as on the quality of the reported information is substantially low. More often than not, the explanations contained in the submitted reports, if any, are not reflective of the true and correct reason for such changes.

In view of the need to provide top management and other internal/external offices with timely and useful information for policy formulation and decision purposes, it is necessary to improve, modify and prescribe new guidelines in the analysis and evaluation of collection performance and in the preparation and submission of the corresponding reports.

**II. OBJECTIVES:**

This Order is issued to:

1. Prescribe the revised policies and guidelines including the standard format for the preparation of the Reports on Drastic Changes in Collection Performance (BIR Form Nos. 1771A to 1771C) and to institutionalize an improved reporting and collection performance evaluation processes.
2. Make the revised BIR Form Nos. 1771A to 1771C a relevant device for evaluating the behavior of collection by type of tax explaining the causes of drastic changes in collection performance and the attainment/non-attainment of the set collection target to enable top management and other concerned revenue officials to formulate policies, programs and strategies to improve revenue collection.
3. Utilize the results of evaluation of the drastic changes in collection by type of tax in facilitating the review and evaluation of the collection performance of the Bureau and all the concerned implementing offices as required by internal and external offices.

### **III. POLICIES AND GUIDELINES:**

The following policies and guidelines shall be strictly observed in the preparation of the Reports on Drastic Changes in Collection Performance (BIR Form Nos. 1771A to 1771C):

1. The Reports on Drastic Changes in Collection Performance (BIR Form Nos. 1771A to 1771C) shall be used as one of the bases in the evaluation of the collection performance of the Bureau and all the implementing offices under it. For this purpose, drastic change in collection performance is defined as the increase/decrease in tax collections per major tax type (i.e., income tax, value-added tax, excise tax, percentage tax, and other taxes) by at least fifteen percent (15%), as compared to the same period of the previous year. Explanations shall also be required when the actual collection exceeds or falls short of the assigned collection goal by 7.5%. However, when analysis of collections per taxpayer, per tax type discloses specific transactions that contributed substantially more or less than 15% of previous year's collections, the reason for the same shall also be included in the report.

The analysis of the collection performance by the different implementing offices, in relation to the expected as well as the actual growth of the Gross Domestic Product (GDP) by sector (i.e., agriculture, industry, and services), shall also form part of the herein prescribed collection performance reports. However, whenever practicable, the reasons for drastic changes in collection performance citing macroeconomic conditions shall be subject to quarterly validation upon receipt by the Research and Statistics Division (RSD) of the quarterly National Accounts of the Philippines (NAP) from the Philippine Statistics Authority (PSA).

2. Drastic change in tax collections may arise due to any of the following reasons:
  - a. Implementation of legislative measures
    - a.1 Enactment of new laws resulting in increase or decrease in collection;
    - a.2 Court decisions [e.g., from Court of Tax Appeals (CTA)/Supreme Court (SC)] that has a contributory impact in the increase or decrease in collection; and
    - a.3 Other legislative measures that made an impact on revenue tax collections (e.g., increase in the minimum wage threshold as implemented by the Wage Productivity Board; availment of tax incentives of taxpayers).
  - b. BIR administrative measures
    - b.1 Transfer of taxpayers (TPs) from one district office to another/Enlisting or delisting of large taxpayers (LTs);
    - b.2 BIR projects and programs – e.g. Run After Tax Evaders (RATE), Arrears Management Team (AMT), Value Added Tax Audit Group (VATAG), Oplan Kandado, Tax Compliance Verification Drive (TCVD), etc.; and

- b.3 Other administrative measures that made an impact on revenue tax collections (e.g., tax information drive, audit efforts; etc.).
  - c. External economic factors that had effects in the GDP that contributed to the growth/decline in sales, increase/decrease in volume of transactions, results of cessations of business operations, corporate re-organizations (e.g., mergers and consolidations), rehabilitation programs in areas affected by calamities, etc.
  - d. Fortuitous events that are beyond the control of man such as fire, flood, typhoon, or earthquake affecting the business operations of certain taxpayers. This has to be supported with the necessary documents such as police report, notarized certification from the local government, and the like.
3. All concerned implementing offices shall ensure that the analysis of collection performance pursuant to this Order are accurate and reflective of the actual underlying reasons for the fluctuating behavior of tax collections, as well as the attainment/non-attainment of the set collection target.

The analysis of the collection performance submitted by each implementing office shall be used as one of the bases in the evaluation of the concerned revenue official's/employee's performance for lateral attrition purposes. The reasons cited in the report on drastic changes in collection performance and impact on collection goal shall be subject to validation by the Collection Performance Monitoring Division (CPMD), in coordination with RSD.

4. The Revenue District Office (RDO)/Regular Large Taxpayers Audit Division (RLTAD)/Excise Large Taxpayers Audit Division (ELTAD)/Excise Large Taxpayers Field Operations Division (ELTFOD)/Large Taxpayers Division (LTD)-Makati/Cebu shall accomplish the revised BIR Form Nos. 1771A to 1771C on a monthly basis, as follows:
- a. Summary Report of Collection Performance (BIR Form No. 1771A) – All the fields in this Form shall be filled-out regardless of whether or not the concerned implementing office has drastic changes in tax collection as defined in Section III.1 of this Order.
  - b. Report on Reasons for Increase (Decrease) in Collection and Impact on Collection Goal (BIR Form No. 1771B) – This form shall list down, among others, the name/s of taxpayer/s contributing to the drastic change in collection performance, the affected tax type, the specific reasons therefor, together with the peso value of the reported reason/s. The filling-out of this Form is mandatory when any major tax type in BIR Form No. 1771A shows increase/decrease in collections by at least fifteen percent (15%) over that of the same period in the previous year. This form shall likewise be accomplished in the event that tax collections from specific taxpayer/s contributed substantially to the increase/decrease in collections even if the aggregate collections from the applicable major tax type/s has not reached the 15% minimum threshold. This Form shall also contain the corresponding impact of the reported drastic changes in collection to the realization of the collection target by each and every implementing office.

In accomplishing the above BIR Form, the following guidelines shall also be observed:

- b.1 The impact on the attainment of the goal per tax type and per taxpayer (TP) shall be determined using the following formula:

$$IG = A - B$$

where:

IG = Impact on Goal

A = Collection from a specified TP for a specific tax type and period of previous year plus the prescribed growth for the current period to meet the collection target

B = Total collection for the current period

Example:

XYZ Corporation, a mining company, paid an income tax of P1,000,000.00 in April, 2013 and only P600,000.00 in April, 2014. The decrease in collection by P400,000.00 for the said tax type was found to be due to the decrease in sales brought about by the reduction in prices of metallic products in the world market. In the issued Revenue Memorandum Order on goal allocation for the year 2014, the prescribed collection growth rate to meet the collection target is twenty percent (20%) [computed by getting the difference between the assigned target for income tax as approved by the Development Budget Coordinating Committee (DBCC) and the actual income tax collection in 2013 and dividing the said difference by the actual income tax collection in 2013].

The impact of the drastic change in tax collections of P400,000.00 to the collection target should be P600,000.00, computed as follows:

$$\begin{aligned} IG &= [P1,000,000.00 + (P1,000,000.00 \times 20\%)] - P600,000.00 \\ &= [P1,000,000.00 + 200,000.00] - P600,000.00 \\ &= P1,200,000.00 - 600,000.00 \\ &= P600,000.00 \end{aligned}$$

- b.2 The following codes shall be indicated as the reason/s for drastic change/s in tax collections in the applicable column in BIR Form 1771B and the use of these codes shall be strictly observed to facilitate consolidation thereof:

b.2.1 NTL – New Tax Laws

b.2.2 CD – Court Decisions

b.2.3 LOS – Other Legislative Measures

b.2.4 TTP – Transfer of TP

b.2.5 BP – BIR Program

b.2.6 AOS – Other Administrative Measures

b.2.7 ECO – Economic

b.2.8 EOS – Other External Factors

b.3 In filling-out the column “Affected Tax Type”, the specific tax type shall be indicated. For example, under the major tax type like income tax, the specific tax type such as corporate income tax, individual income tax, withholding tax on wages, expanded withholding tax, final withholding tax, etc. shall be indicated in the said column.

b.4 In coming up with the reasons/factors for the existence of drastic changes in tax collections, generic statements for such reasons should not be made (e.g., reduction in remittance of withholding taxes; increase in creditable input taxes claimed by taxpayers; reduction/increase in payment of taxes by the taxpayers, etc.). For this purpose, only specific statements for underlying reasons on drastic changes in tax collections shall be indicated (e.g., implementation of the new Sin Tax Law; increase in minimum wage rate as approved by the Wage Productivity Board, etc.)

b.5 In case the drastic change was attributed to timing difference in the remittance of taxes by taxpayers pertaining to the same nature of transaction where the month of remittance of taxes in the previous year is different from the month of remittance in the current year, the compensatory effect of such timing difference, whether positive or negative, in the current year shall be reflected in the monthly report of drastic change in collections, in order to avoid distortions in the annualized analysis of the drastic changes in tax collections during the current year.

Example:

A taxpayer paid cash dividends in June 2013 and the withholding taxes due thereon were remitted to the RDO in July 2013, while in 2014, the cash dividends were paid to stockholders in October 2014 and the corresponding withholding taxes due thereon were remitted to the RDO on November 10, 2014. If the RDO included in the reduction in withholding tax collections as one of the reasons for the decline in collections in July 2014, the positive impact to tax collections in November 2014 shall also be included in the November 2014 report of drastic change in tax collections considering that the positive impact to tax collections in the said month has a compensatory effect in the reported decline in collections in July 2014. Failure to report such positive impact in the November 2014 report of drastic change will result to distortions in the full-year analysis of revenue collections of the RDO and the BIR, as a whole.

- c. Summary of Reasons for Drastic Changes in Collection and Impact on Collection Goal in Peso Value (BIR Form No. 1771C) – This Form shall contain the summary of the reasons for drastic change in collection performance reflected in BIR Form No. 1771B together with the peso value of the reported reason/s. This Form shall reflect both the monthly and the cumulative summary of the reasons for drastic change in collection performance.

In the preparation of these reports, the totals of the peso value in BIR Form Nos. 1771B and 1771C should always tally. However, the totals in the said Forms may not necessarily correspond with the collection variances reflected in BIR Form No. 1771A.

If there is an instance that no drastic change resulted in collection performance by type of tax/es in any given month, the phrase “NO DRASTIC CHANGE/S” shall be indicated in the explanation column of BIR Form Nos. 1771B and 1771C.

5. Reports on Drastic Changes in Collection Performance of each implementing office shall be submitted to the next office level within the prescribed period set in this Order, as follows:

<b>Implementing Office</b>	<b>Next Office Level</b>	<b>Due Date</b>
a.1 RDO	RD	25 <sup>th</sup> of the following month
a.2 RLTAAD, ELTAAD, ELTFOD, LTD-Makati/Cebu	LTPMPD	
b. LTPMPD	ACIR, LTS	30 <sup>th</sup> of the following month
c. RD & ACIR, LTS	ACIR, CS & ACIR, PMS cc: CPMD & RSD	35 days after the close of each month
d. CPMD	CIR, thru ACIR, CS & DCIR, OG cc: ACIR, PMS & RSD	40 days after the close of each month

The reasons for drastic changes in collection performance and impact on collection goal cited by each implementing office shall be carefully reviewed and validated by the next office level. Reports containing reasons which are found to be without bases or not in accordance with the provisions of this Order shall be returned by the reviewing office to the concerned implementing office within two (2) days from receipt of the report/s. Re-submission of the returned reports by the concerned implementing office shall have to be made within three (3) days from receipt thereof.

6. All approved Reports on Drastic Changes in Collection Performance by concerned offices shall be submitted in strict compliance with the deadlines set in this Order per implementing office in hard copy to the CPMD and RSD. To ensure timely

receipt of said reports, soft copies shall likewise be sent via electronic mail to [cpmd@bir.gov.ph](mailto:cpmd@bir.gov.ph) and [statistics@bir.gov.ph](mailto:statistics@bir.gov.ph).

#### **IV. PROCEDURES:**

##### **A. Preparation and Submission of BIR Form Nos. 1771A, 1771B and 1771C**

*The Revenue District Office (RDO)/Regular Large Taxpayers Audit Division (RLTAD)/Excise Large Taxpayers Audit Division (ELTAD)/Excise Large Taxpayers Field Operations Division (ELTFOD)/Large Taxpayers (LTD)-Makati/Cebu shall:*

1. Prepare and properly accomplish BIR Form Nos. 1771A to 1771C by:
  - a. Providing the necessary and required data/information in accordance with the provisions under Part III of this Order;
  - b. Identifying in detail per tax type, the taxpayers that contributed to the drastic changes in collection performance and impact on collection goal using BIR Form No. 1771B by:
    - b.1 Citing specific reason/s attributable to the computed variance in collection against the previous year and the collection target;
    - b.2 Indicating the applicable code for the cited reason/s;
    - b.3 Indicating the affected tax type; and
    - b.4 Indicating the peso value of the cited reason/s affecting the collection performance
  - c. Ensuring that the total net impact of the drastic changes (positive less negative) per tax type in BIR Form 1771B reconciles with the overall amount per tax type shown in BIR Form 1771C. However, totals in BIR Form Nos. 1771B and 1771C shall not necessarily tally with the variance in BIR Form No. 1771A.
2. Submit the duly accomplished and validated BIR Form Nos. 1771A to 1771C to the Regional Director (RD)/Assistant Commissioner (ACIR) of the Large Taxpayers Service (LTS) through the Large Taxpayers Performance Monitoring and Programs Division (LTPMPD) in hard and soft copies, for consolidation of collection data not later than the 25<sup>th</sup> day of the following month.
3. Re-submit amended reports in case the same are returned due to lack of bases for reasons cited or when found to be prepared not in accordance with this Order within two (2) days from receipt thereof.

## **B. Consolidation and Submission of BIR Form Nos. 1771A, 1771B and 1771C**

### ***The LTPMPD shall:***

1. Receive the Reports on the Detailed Explanation of Drastic Changes in Collection Performance” (BIR Form Nos. 1771A to 1771C) from RLTAAD/ELTAAD/ELTFOD/LTD-Makati/Cebu.
2. Review and validate the accuracy and substance of the reasons for the drastic changes in collection performance and impact on collection goal cited by the concerned offices under the LTS. If evaluation of the reports is found not acceptable or prepared not in accordance with this Order, return the report to the concerned implementing office within two (2) days from receipt thereof.
3. Prepare the consolidated analysis of drastic changes in collection performance based on the revised BIR Form Nos. 1771A to 1771C, as submitted by the offices under the LTS.
4. Submit the consolidated analysis of drastic changes in collection performance with the accomplished revised BIR Form Nos. 1771A to 1771C to the ACIR, LTS in hard and soft copies, not later than the 30<sup>th</sup> day of the following month copy furnished, the CPMD and RSD.
5. Re-submit amended reports in case the same are returned due to lack of bases for reasons cited or when found to be prepared not in accordance with this Order within two (2) days from receipt thereof.

### ***The RD/ACIR, LTS shall:***

1. Receive the Reports on Drastic Changes in Collection Performance (BIR Form Nos. 1771A to 1771C) from the RDOs/LTPMPD.
2. Review and validate the accuracy and substance of the reasons for the drastic changes in collection performance and impact on collection goal cited by the concerned offices under the LTS. If evaluation of the reports is found not acceptable or prepared not in accordance with this Order, return the report to the concerned implementing office within two (2) days from receipt thereof.
3. Prepare the consolidated analysis of drastic changes in collection performance based on the revised BIR Form Nos. 1771A to 1771C, as submitted by the RDOs (*NOTE: This shall not apply to ACIR, LTS since consolidation of drastic changes data for offices under the LTS is done by the LTPMPD*).
4. Submit the consolidated analysis of drastic changes in collection performance with the accomplished revised BIR Form Nos. 1771A to 1771C to the ACIRs, Collection Service (CS) and Planning and Management Service (PMS) in hard and soft copies, not later than the 30<sup>th</sup> day of the following month copy furnished, the CPMD and RSD (*NOTE: LTS to submit in hard and soft copies within 35 days after the close of each month*).



***The RSD shall:***

1. Receive the monthly Reports on Drastic Changes in Collection Performance from the RD/ACIR, LTS.
2. Validate the propriety of the reasons cited in the reports, more specifically with respect to the national and regional economic environment, to determine whether or not the same are reflective of the actual economic conditions. For this purpose, the annual Report on Gross Regional Domestic Product (GRDP) and the quarterly NAP from the PSA can be used as reference materials in the said validation process.
3. Prepare a monthly/quarterly/annual report on the macroeconomic factors that affected the Bureau's collection performance.
4. Submit the monthly report on the macroeconomic factors within 35 days after the close of each month to CPMD to be used as input in the validation of the reasons/explanations on drastic changes in collection performance submitted by the implementing offices, copy furnished the ACIRs, CS and PMS.
5. Submit quarterly and annual report on macroeconomic factors within one (1) month from receipt of the quarterly and annual reports from the PSA to the CPMD, copy furnished the ACIRs, CS and PMS.

***The CPMD shall:***

1. Receive the approved Reports on Drastic Changes in Collection Performance from the RD/ACIR, LTS and the monthly/quarterly/annual reports on the macroeconomic factors from the RSD.
2. Review and validate the accuracy and substance of the reasons for the drastic changes in collection performance and impact on collection goal cited by the concerned RD/ACIR, LTS. If upon evaluation and validation, the reports are still found not acceptable or still prepared not in accordance with this Order, return the report to the concerned implementing office within two (2) days from receipt thereof.
3. Consolidate, prepare, and submit the analysis of the drastic changes in collection performance to the ACIR, CS within 40 days after the close of each month, copy furnished the RSD.
4. Prepare recommendations to top management on the courses of action that need to be taken, if necessary, to avoid recurrence of drastic changes in revenue collections that are within the control of the Bureau, copy furnished the ACIR, PMS.

**V. REPEALING CLAUSE:**

The provisions of RMO 46-98 and RMO 73-94 that are inconsistent with this Order are hereby revoked, modified or amended accordingly.

**VI. EFFECTIVITY:**

This Order shall take effect immediately and shall continue to be in force until revoked or amended.

(Original Signed)  
**KIM S. JACINTO-HENARES**  
Commissioner of Internal Revenue

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