



**Republic of the Philippines
Department of Finance
BUREAU OF INTERNAL REVENUE**

REVENUE MEMORANDUM ORDER NO. 19-2010

March 9, 2010

SUBJECT: Taxpayers' Lifestyle Check System

TO : All internal revenue officers and others concerned

I. OBJECTIVES

It has been observed that there are several individual taxpayers with substantial investments, and assets and/or conspicuous lifestyles but have a relatively small income declared, and consequently, reduced income tax payments.

Likewise, it has been noted that individuals attempting to evade or minimize tax payments rarely report their income and would often not provide their books and records for scrutiny. This Order is being issued to help address the difficulty encountered by revenue officers in examining a taxpayer's tax compliance when there is no direct evidence of income or the books and records are inadequate, not available or inaccurate, yet, it is palpably clear that the taxpayer is earning income as evidenced by an increase in or substantial assets they own and/or the lavish lifestyles they maintain.

This Order shall also be known as the Taxpayer's Lifestyle Check System (TLCS).

II. POLICIES AND GUIDELINES

1. Policies

1.1 It is the policy of the Bureau to exhaust all means and methodology of determining the individuals' income. This Order is being issued to prescribe the policies and guidelines in the conduct of investigations on the lifestyle and assets of individuals in order to properly determine their tax compliance.

1.2 An individual's taxable income may be established by using direct evidence, whenever available.

1.3 Indirect methods can be used, however, when one or more of the following conditions, among others, prevail:

- a. The taxpayer maintains no books and records.
- b. The taxpayer's books and records are not available.
- c. The taxpayer's books and records are inadequate.
- d. The taxpayer withholds books and records from investigation/verification by authorized revenue officers.

The fact that the taxpayer's books and records reflect the figures on the income and business tax returns, however, does not prevent the use of the indirect method of proof. The revenue officer can still look beyond the "self-serving declaration" in the taxpayer's books and records and use any evidence available to contravene their accuracy. In this connection, the provisions of RAMO No. 1-2000 shall be followed. The BIR shall rely on RMC No. 23-2000 in making deficiency tax assessments based on the "Best Evidence Obtainable". Furthermore, Section 6 (c) of the National Internal Revenue Code allows the BIR to prescribe the minimum taxable base for which internal revenue taxes shall be determined.

2. Guidelines

2.1 As part of its intelligence operations, the National Investigation Division (NID) shall verify the existence of a taxpayer's high value assets and/or conspicuous spending by accessing the records of appropriate government and private entities, such as but not limited to the following:

- a. Land Transportation Office
- b. Bureau of Immigration
- c. Airline and shipping companies
- d. Maritime Industry Authority
- e. Civil and Aeronautics Board
- f. Manila Electric Company
- g. Land Registration Authority
- h. Registries of Deeds
- i. Resorts, membership clubs, or similar establishments

- j. Homeowners' associations
- k. Real estate development companies
- l. Credit card companies
- m. Statement of Assets, Liabilities, and Networth and/or Amnesty Returns filed under Republic Act 9480

2.2 The Assistant Commissioner, Enforcement Service (ACIR, ES) shall establish linkages with various agencies for authority to secure information/documents on individual.

2.3 The Access to Records form hereto attached as Annex A shall be used in requesting for information/documents from the abovementioned entities.

2.4 The ACIR, ES shall then access the Bureau's Integrated Tax System (ITS) for information on the taxpayer such as:

- a. taxpayer's identification number
- b. registered address
- c. registered business/es
- d. returns filed;
- e. amount of taxes paid

2.5 The information gathered from the abovementioned entities shall then be evaluated vis-à-vis the data extracted from the ITS.

The economic use/beneficial ownership of properties shall be considered in the evaluation process. Thus, all properties registered under the name of his/her child or, whether emancipated or a minor, or any other relative shall be considered as those of the taxpayer when the property is not proven to have been acquired under any of the means enumerated under the New Civil Code of the Philippines and the tax thereon has been properly paid, and/or the child or relative has no independent means sufficient for the acquisition of the properties.

2.6 After verification and if sufficient evidence so warrant, the investigators shall request for the issuance of a Letter of Authority (LA) to conduct a formal investigation of the subject taxpayer.

- 2.7 If the taxpayer's networth has increased in a given year or he has acquired substantial assets and incurred substantial spending disproportionate to his declared income, and it was verified from the ITS that he has not filed an income tax return for that period, then such fact constitutes a *prima facie evidence* of fraud and/or substantial under declaration of taxes warranting the issuance of a Letter of Authority to investigate the taxpayer.
- 2.8 The ACIR, ES shall prepare the LAs for the aforementioned cases with the approval of the authorized officials.
- 2.9 The ACIR, ES shall coordinate with the Information Systems Group for the development of an Electronic Data Warehouse wherein all information gathered in the TLCS shall be stored for reference and use.
- 2.10 The Special Investigation Division (SID) of the Regional Offices and other BIR audit offices shall also be authorized to implement the TLCS upon the approval of the Commissioner of Internal Revenue.
- 2.11 The NID and other BIR offices shall submit a monthly report on the activities conducted in the TLCS. The report shall be submitted to the Office of the Commissioner of Internal Revenue not later than the 5th day of each month.

III. REPEALING CLAUSE

All revenue issuances inconsistent herewith are hereby repealed or modified.

IV. EFFECTIVITY

This Order shall take effect immediately.

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