

REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

October 23, 2003

REVENUE MEMORANDUM ORDER NO. 42-2003

SUBJECT : **Prescribing Additional Guidelines Governing the Rules on Assessment of National Internal Revenue Taxes covered by a Letter Notice (LN) issued under the RELIEF System as defined in Revenue Memorandum Order (RMO) No. 30-2003 and other data matching processes.**

TO : All Internal Revenue Officers and Others Concerned

I. Objective

This RMO is issued to supplement the procedures and guidelines in handling assessments against taxpayers covered by Letter Notices (LNs) issued under the RELIEF System defined in RMO 30-2003 and other data matching processes intended to intensify the Bureau's enforcement efforts through the ***"no-contact-audit approach"***.

II. Policies

1. Sec 6(A) of the Tax Code provides, among others, that *"after a return has been filed as required under the pertinent provisions of the said Code, the Commissioner or his duly authorized representative may authorize the examination of any taxpayer and the assessment of the correct amount of tax"*, and that *"the tax or any deficiency tax so assessed shall be paid upon notice and demand from the Commissioner or from his duly authorized representative."*
2. In order to intensify enforcement, the power of the Commissioner to authorize any examination of taxpayer and the assessment of the correct amount of tax is hereby ordered done through the so-called ***"no-contact-audit-approach"***.
3. The ***"no-contact-audit approach"*** includes the process of computerized matching of sales and purchases data contained in the Schedules of Sales and Domestic Purchases, and Schedule of Importation submitted by VAT taxpayers under the RELIEF System pursuant to RR No. 7-95, as amended by RR Nos. 13-97, 7-99 and 8-2002. This may also include the matching of data from other information or returns filed by the taxpayers with the BIR such as

Alphabetical list of Payees subject to Final or Creditable Withholding Taxes.

4. Even without conducting a detailed examination of taxpayer's books and records, the computerized/manual matching of sales and purchases/expenses will reveal discrepancies which shall be communicated to the concerned taxpayer through the issuance of Letter Notice (LN) by the Commissioner.
5. LNs being served by the Bureau upon taxpayers found to have under-declared their sales or over claimed their purchases/expenses can be considered notice of audit or investigation in so far as the amendment of any return is concerned which is the subject of such LN. A taxpayer is therefore disqualified from amending his return once an LN is served upon him.

III. Guidelines

The following guidelines shall be observed in handling computation of tax payment/assessments of taxpayers covered by LNs:

1. As provided for under RMO 30-2003, taxpayers with under-declared sales and over-claimed purchases shall be notified of such findings of discrepancy through the issuance of Letter Notices (LNs) herein attached as **Annex "A"** and **Annex "B"**. The LNs shall be generated automatically together with the Details of Taxpayer's Customer'/Supplier' Records (DTCS) by the BIR computer system. The same shall be forwarded to the RDO/LTDO/LTAID for service to taxpayers concerned.
2. Letter Notices (LNs) under the Relief System shall cover only the tax indicated therein on a given particular period or quarter. (e.g. VAT liabilities for 3rd qtr 2002)
3. However, taxpayers who will be issued LNs may voluntarily pay the tax indicated in the LN and likewise pay the resulting deficiency income or other taxes as a result of such under or over declaration of sales or purchases/expenses as the case may be. The computation of the deficiency tax(es) should be based on herein **Annex "C"**.
4. The issuance of an LN will not preclude the Commissioner from issuing a Letter of Authority covering the comprehensive audit of a taxpayer's tax liability and is not a waiver of the Commissioner's right to look into the reasonableness of taxpayer's operating and administrative expenses.
5. The LN shall serve as a discrepancy notice to taxpayer similar to a Notice for Informal Conference to the concerned taxpayer, thus, the procedures defined in RR 12-99 should likewise be observed.
6. The concerned taxpayer will be given an opportunity to reconcile the discrepancy. If the taxpayer fails to respond within fifteen (15) days from date of receipt of the LN, the RDO/LTDO/LTAID shall issue a follow-up letter giving the taxpayer ten (10) days to response. If despite the additional ten (10) days, taxpayer still fails to respond, the RDO/LTDO/LTAID shall indorse the case with least possible delay to the Assessment Division of the Region or the appropriate office authorized to review report of investigation, for the issuance of a

Preliminary Assessment Notice and Final Assessment Notice, as the case may be, following the guidelines and procedures provided by RR 12-99.

7. In preparing assessments against taxpayers covered by LNs, the RDO/LTDO/LTAID should prepare the computations in accordance with herein Annex "C".

Any revenue issuance which is inconsistent herewith shall be considered repealed, amended, or modified accordingly.

(Original Signed)
GUILLERMO L. PARAYNO, JR.
Commissioner of Internal Revenue