

OUTLINE OF TAX ADMINISTRATION IN THE PHILIPPINES

1. Organization of the Tax Department (BIR) and Number of Officials

The Tax Department (the Bureau of Internal Revenue:BIR) is an agency under the Department of Finance. It exercises vast and broad legislative and administrative powers involving the assessment, collection and enforcement of taxes. The collection of value added tax and excise tax on imported goods, however, is performed by the Bureau of Customs, a separate agency also under the Department of Finance.

The BIR is the primary revenue-raising agency of the government, collecting annually about 80% of total government revenues. Its annual and monthly collection target is determined by the Development Budget and Coordinating Council, an inter-agency council led by the Department of Budget and Management.

BIR is headed by a Commissioner and four Deputy Commissioners who head the major groups of the Bureau, namely: the Operations Group, the Resource Management Group, the Information Systems Group, and the Legal and Inspection Group. The Operations Group oversees regional offices(called Revenue Regions) and the districts comprising the regions (called Revenue District Offices).

A special service for large taxpayers called the Large Taxpayers Service (LTS) is under the Office of the Commissioner. LTS collects about 53% of total BIR collections.

The Commissioner, Deputy Commissioners, together with thirteen Assistant Commissioners for the different Services, comprise the senior level of administrative authority of the BIR.

The BIR National Office has 2640 employees.

2. Organization of the Revenue Regions and Regional District Offices

19 Revenue Regions and 115 Revenue District Offices were established in order to make the BIR more responsive to the needs of the taxpaying public. They perform front-line operations including the conduct of audit of taxpayers' books of accounts and accounting records.

Each Revenue Region is headed by a Regional Director who oversees the performance of the following regional offices, namely: Assessment Division, Collection Division, Legal Division, Finance Division, Administrative Division, Special Investigation Division, and Revenue District Offices.

There are at least two regions with Large Taxpayers District Offices, and four regions with Revenue Data Centers.

The total number of staff in the regional offices is 9,246.

3. History of Tax Reform on Self- Assessment System

Self-assessment system for Corporation income tax and individual taxpayers was introduced in 1934 with the enactment of the first Philippine Tax Code. It was applied to income tax, corporation income tax, inheritance tax and later expanded to other national internal revenue taxes.

In 1951, the Withholding Tax System was implemented. It remains the principal method of collecting income taxes.

4. Basic Features of Tax Administration for Filing and Taxation

The key element in tax administration for filing and taxation is the Tax Identification Number (TIN). Taxpayers are able to acquire their TIN by applying with the Revenue District Offices or by using the eTIN facility (for “professionals”).

Taxpayers file their tax returns either directly with the BIR through the RDOs or its authorized agent banks. Individuals file their tax returns for calendar year by April 15 of the following year, and corporations filed their tax returns quarterly. In 2001, the BIR adopted a technology-based system called EFPS or electronic filing and payment system. Under this system, returns are filed through the internet, and payment of taxes are made through the internet banking facilities of authorized agent banks.

5. Basic Features of Tax Audit

Due to the complexity of transactions and the peculiarity of certain taxpayers, BIR designed different audit programs for various audit units.

RDOs have a **selective audit program**, the objective of which is to create an impact on the taxpayers in order to compel them to voluntarily declare their correct tax liabilities. The goal is to audit limited number of tax returns with greater revenue potential.

The **Large Taxpayers Service** conducts mandatory audit, short audit (an audit by type of tax) and package audit (audit which covers all types of taxes).

The **Enforcement Service**, for purposes of the Tax Fraud Program of the BIR, also conducts a formal audit of the taxpayer’s books of accounts and records upon a prima facie finding of existence of fraud.

An **Office Audit Program** is also conducted by revenue officers of the Assessment Division of Revenue Regions. This program is done without field investigation and covers the audit of tax returns of individual and corporate taxpayers, estates and trusts within the Region.

In 2002, a state-of-the-art audit technique called Reconciliation of Listings for Enforcement System (RELIEF) was institutionalized by the BIR. It supports the voluntary assessment programs of the BIR through cross-referencing of return information with third party information data generated from the Summary Lists of Sales and Purchases (SLSP) submitted by taxpayers on a quarterly basis.

In 2005, the BIR No Audit Program (NAP) was enacted to encourage taxpayers to voluntarily declare and pay higher taxes. Taxpayers who fulfill the requirements for NAP may be exempt from tax audit. This privilege is valid for a period of five years beginning 2004. About 14,764 taxpayers applied for NAP, generating a total collection of Php 650.941 Million since the program was implemented.

6. Existence and Basic Features of Criminal Investigation

Taxpayers suspected of committing tax fraud are subjected to criminal investigations. The conduct of investigation for criminal tax cases is undertaken by revenue officers of the National Investigation Division and the Special Investigation Division. The process begins at the time the information for tax evasion or an instruction to investigate is received by the revenue officers. A preliminary investigation is then conducted to establish the indications of fraud. If a *prima facie* finding of fraud is confirmed, a formal tax fraud investigation will follow. The formal investigation includes the examination of books of accounts of the taxpayer.

Criminal tax cases recommended for criminal prosecution are referred to the Prosecution Division of the BIR. In 2005, a special team of lawyers and revenue officers was organized to run a campaign program against large scale tax evaders called Run Against Tax Evaders or RATE. The RATE Team has already filed 44 criminal tax cases against high-profile prominent individuals and corporations with the Department of Justice (DOJ). Five of these cases were resolved by DOJ in favor of the BIR.

7. Public Relations and Tax Counseling

Public Relations is principally carried out by the following offices: Taxpayer Information and Education Division, Taxpayer Service Programs and Monitoring Division and Taxpayer Assistance Service. At the district offices level, the service is provided by the Taxpayer Assistance Section which also provides tax counseling to taxpayers.

Various PR media are utilized to inform the public of existing tax regulations. A website is maintained by the BIR providing useful and up-to-date information on the BIR, its programs, projects, and proposed measures. Electronic copies of the Tax Code, rulings, revenue regulations, and other issuances can be down-loaded from the website. When new tax laws and issuances are enacted, the BIR also conducts Roadshows in major cities and provinces.

Other facilities to answer the queries of taxpayers were also established such as BIR-on-Wheels (BOW) and BIR Contact Center (BIR). BOW is manned by two Revenue

Officers; they answer queries of walk-in taxpayers and assist them in accomplishing BIR Forms. BIRCC is an e-contact center where taxpayer interactions take place over multiple channels: telephones, e-mail, fax and internet.

8. Staff Training

Staff training is carried out by the Training Management Division and the Training Delivery Division. Various types of instruction are employed such as full-time training schools for new employees, lecture and on-the-job training for those selected for advancement.

In 2004, BIR gave 274 training courses to its employees and provided IT courses to its examiners.

The Bureau was also able to coordinate the participation of 26 Revenue Officials/Personnel to 17 trainings/seminars/study tours abroad.

9. Tax Accountants

A Revenue National Accreditation Board and a Revenue Regional Accreditation Board in each Revenue Region were created to accredit and register tax agents or practitioners. The official recognition by the BIR of tax practitioners assures taxpayers that their tax accountants are competent and professional, and adhere to ethical standards in the exercise of their profession. Only those tax agents or practitioners issued a Certificate of Accreditation shall be allowed to represent a taxpayer or transact business with the BIR.