REVENUE MEMORANDUM ORDER NO. 36-2010 issued on March 30, 2010 prescribes the guidelines and procedures for the conduct of the Conglomerate Audit Program for taxable year 2009.

The Large Taxpayers Service (LTS) and Enforcement Service (ES) shall identify the conglomerates consisting of interrelated companies (parent company, affiliates and subsidiaries) that will be subject for audit under this program. The respective Assistant Commissioners (ACIRS) for the LT-Regular, LT-Excise and ES shall submit to the Commissioner the list of four (4) big and four (4) small conglomerates.

The LTS (Regular and Excise), through the examiners from the eight (8) audit divisions under it and the ES, through the National Investigation Division (NID), shall be assigned to special audit teams to conduct the audit of identified taxpayers. The audit teams shall be headed by their respective Assistant Commissioners who shall report directly to the Commissioner.

Upon approval by the Commissioner of the list of conglomerates, the LTS shall submit the corresponding list to its concerned audit divisions to handle the audit of the respective conglomerate. For the LTS, each audit division shall be assigned to audit one (1) big conglomerate and one (1) small conglomerate. However, the Assistant Commissioner concerned may assign the audit of a particular conglomerate to another audit division not having jurisdiction over the principal parent company of the conglomerate, subject to approval of the Commissioner.

The Assistant Commissioner for the ES shall also submit to the Commissioner the list of particular groups within the NID to handle the audit of conglomerates. For this purpose, Revenue Special Orders shall be issued designating the special audit teams to handle the audit of conglomerates. The Revenue Officers under each special audit team shall, in turn, be tasked to undertake a simultaneous, joint, and coordinated examination of the books of accounts of the taxpayers belonging to the same group of related companies assigned to their respective audit divisions.

Upon identification of the taxpayers for audit under this program, the LTS and ES shall inform the Regional Offices having jurisdiction over the concerned taxpayers that they have been authorized to conduct an audit/investigation on the taxpayer. All Revenue District Officers, through the Regional Directors, shall transmit to the Office of the Commissioner all Income, VAT, Percentage, Withholding and other tax returns of said taxpayers under their respective jurisdictions within fifteen (15) days from receipt of the notification.

Letters of Authority (LAs) pertaining to taxpayers identified by the LTS and ES for audit under the Program shall be signed by the Commissioner under the LA Monitoring System. In the event that an LA has already been issued by the Regional Office, the same shall be considered as automatically invalidated. The investigating unit concerned shall then forward the entire docket to the LTS or ES, as the case may be, for consolidation, upon receipt of the aforesaid notification.

Upon issuance of LAs for taxpayers not belonging to the jurisdiction of the LTS and for taxpayers subject to audit/investigation by the ES, the LTS and ES shall notify the concerned taxpayer(s) of the change of jurisdiction for the audit/investigation using the pro-forma “Notice of Change of Jurisdiction.”

Verification shall generally follow the audit procedures prescribed in the Audit Manual. In addition, the use of Computer-Assisted Audit Tools and Techniques (CAATTs) for taxpayers with Computerized Accounting System is enjoined, but shall be limited to data gathering, summarizing and obtaining discrepancy reports of voluminous business transactions of taxpayers under audit.

The resolution and final disposition of all issues raised in the audit proper shall be vested to the investigating division handling the case. Other special procedures peculiar to related-party
audit and which are necessary to clearly reflect the true taxable income of controlled entities shall be pursued.

All preliminary findings shall be reviewed by the Assistant Commissioner, or in his absence, by their respective Head Revenue Executive Assistants (HREAs) before any Conference Letter is issued to the taxpayer informing him of the nature of the findings being assessed against him.

The conduct of conference as well as the issuance of Assessment Notices (ANs) for interrelated group of taxpayers shall be done simultaneously, unless there are justifiable reasons to make it separate.

All ANs shall be signed by the Commissioner. However, payment forms may be signed by the Assistant Commissioner concerned, or in his absence, by their respective HREA.

Final reports of investigation shall be approved by the Commissioner who shall issue the necessary AN covering deficiency taxes wherever applicable. All ANs remaining unpaid after the due date for payment specified in the AN shall be transmitted for collection to the respective collection units having jurisdiction of the taxpayers within 15 days from date of delinquency.

All investigations shall be completed and the reports of investigations submitted not later than 6 months from the issuance of the LA. Within 30 days from the date of completion, each audit team, through their Assistant Commissioners, shall submit to the Commissioner recommended set of guidelines, standards and procedures to be adopted in the audit and tax treatment of related parties and inter-company transactions. It shall include, among others, the following:

a. Identification of tax issues and tax planning schemes of related parties;
b. Tax treatment for controlled transactions including, but not limited to, transfer pricing, cost-sharing arrangements, inter-company loans and advances, provisions of goods and services, agency and/or resale arrangements, etc; and
c. Audit procedures, rules and regulations for related party transactions.

Collections from the program shall be credited to the Revenue District Offices having jurisdiction over the concerned taxpayers. However, for purposes of Key Performance Indicators measurement, the collections resulting from the audit conducted shall be attributed/credited as performance of concerned Revenue Officers in the LTS and ES.