1. **Q. What is RATE?**
   A. RATE stands for **R**un Against **T**ax **E**vaders.

2. **Q. What is the RATE Program?**
   A. It is a program initiated by the DOF & BIR to investigate and prosecute individuals and/or entities engaged in tax evasion and other criminal violations of the National Internal Revenue Code (NIRC) of 1997.

3. **Q. What are the objectives of the RATE Program?**
   A. The objectives of the RATE Program are as follows:
      1. Generate the maximum deterrent effect on the taxpaying public by impressing the fact that tax evasion is a crime and violators will be caught and punished.
      2. Enhance voluntary compliance among taxpayers.
      3. Promote the confidence of the public in the tax system.

4. **Q. What is tax evasion or tax fraud?**
   A. Tax evasion or tax fraud is the use by the taxpayer of illegal or fraudulent means to defeat or lessen the payment of a tax.

5. **Q. How is the RATE Program different from the other programs of the BIR?**
   A. Unlike the other programs of the Bureau which are designed for revenue generating purposes as a means to achieve the Bureau’s collection goal, the RATE Program aims to investigate, prosecute and convict tax evaders and other violators of the NIRC of 1997.

6. **Q. Who may be charged under the RATE Program?**
   A. Any person, association, partnership and company found to have committed a violation of the provisions of the NIRC of 1997 may be charged under the RATE Program. But in the case of associations, partnerships or corporations, the penalty shall be imposed on the partner, president, general manager, branch manager, treasurer, officer-in-charge and employee/s responsible for the violation.

7. **Q. What are the fraudulent activities or criminal tax violations covered by the RATE Program?**
   Although not all inclusive, listed below are some of the infractions that are considered as criminal violations of the NIRC of 1997:

   a) Offenses relating to Income:
      - Failure to file tax return/s
      - Failure to pay taxes
      - Deliberate underdeclaration of income by more than 30% of that declared per return (substantial underdeclaration)
      - Hiding or transferring assets or income
      - Non-remittance of withholding taxes
b) Offenses relating to Deductions:

- Deliberate overstatement of amount of deductions by more than 30% of actual deductions (substantial overstatement of deductions)

- Claiming personal expenses as business expenses

- Claiming false deductions

c) Other Violations: *

- Use of fake Certificate Authorizing Registration (CAR), Tax Clearance Certificate (TCC) or other accountable forms

- Failure to register with the BIR

- Keeping more than one (1) set of books of accounts

- Making false entries in books and records

* Notes:
These are usually included as incidental offenses which merely accompany the main charges as they are the means/methods employed to commit tax evasion. Also, in violating the provisions of the NIRC, taxpayers may be liable for other crimes punishable by the Revised Penal Code.

8. Q. What are effects of fraud under the NIRC of 1997?
   A. The following are the effects of fraud under the Tax code:
      • Civil penalties resulting to the imposition of a 50% surcharge
      • Criminal penalties resulting to the imposition of penal sanctions of imprisonment and/or fine upon conviction by the Judicial Courts
      • Power of the BIR to assess and collect the tax is extended to 10 years from the date of discovery of the fraud case
      • Fraud cases cannot be the subject of a compromise as mandated by Section 204 of the NIRC of 1997

9. Q. What are the sources of RATE cases?
   A. RATE cases may come from many sources. Some of these are enumerated below.
      • Routine audit examination of tax return/s by BIR
      • Confidential Information/s filed by informers under Section 282 of the NIRC of 1997
      • Information obtained by the BIR from third parties as authorized by Section 5(B) of the NIRC of 1997.
      • Referrals from other government agencies
      • Newspaper Reports
10. Q. **What are the procedures in developing tax fraud (RATE) cases?**

1. A preliminary investigation must first be conducted to establish the prima facie existence of fraud. This includes the verification of the allegations on the confidential information/s and/or complaints filed, and the determination of the schemes and extent of fraud allegedly perpetrated by the subject taxpayer.

2. Once the prima facie existence of fraud had been established, a formal investigation is initiated through the issuance of a Letter of Authority (LOA) against the subject taxpayer. However, there are certain cases wherein the issuance of a LOA is not anymore needed (i.e. non-filing of tax returns, unlawful pursuit of business, etc.).

3. After investigation and the existence of fraud was determined, a criminal case for tax evasion shall be filed with the Department of Justice (DOJ).

11. Q. **What are the methods of proving fraud in tax cases?**

A. Fraud in tax cases may be proved through the following:
   a. Direct Approach Method (Direct Evidence)
   b. Indirect Approach Method.

12. Q. **What are the types of Indirect Approach Method?**

A. The types of the Indirect Approach Method are as follows:

   - **Net Worth Method or Inventory Method or Net Worth & Expenditures Method** – This is a method of reconstructing income based on the theory that if the taxpayer’s net worth has increased in a given year in an amount larger than his reported income, he had understated his income for that year.

   - **Expenditures Method or Excess Cash Expenditures Method** - The expenditures method proceeds on the theory that where the amount of money which a taxpayer spends during a given year exceeds his reported income, and the source of such money is otherwise unexplained, it may be inferred that such expenditures represent unreported income.

   - **Percentage Method** – The percentage method is a computation whereby determinations are made by the use of percentages or ratios considered typical of the business under investigation. By reference to similar businesses or situations, percentage computations are secured to determine sales, gross, profit, or even net profit. Likewise, by the use of some known base and the typical percentage applicable, individual items of income or expenses may be determined.

   - **Unit and Value Method** – This is not a prime method of proof. The determination or verification of gross receipts may be computed by applying price and profit figures to the known ascertainable quality of business done by the taxpayer. The method is feasible when the investigation can ascertain the number of units handled by the taxpayer and also when he knows the price or profits charged per unit.

13. Q. **Who will file the tax fraud case before the Department of Justice?**

A. Based on the investigation report and sworn affidavit executed by the revenue officers assigned to a particular case, the Commissioner of Internal Revenue refers the case to the DOJ for preliminary investigation.
14. Q. Where do you report suspected tax fraud/evasion activities?
   A. If you suspect or know of an individual or company that is not complying
      with the tax laws, please immediately report this activity. Reports can be
      made by phone, by mail (regular or e-mail) or by personally reporting the
      matter to the nearest BIR Office located nationwide.

15. Q. Does the BIR give any reward to persons who report suspected tax fraud
       or tax evasion activities?
   A. Yes, an informer's reward is given to persons instrumental in the discovery
      of violations of the NIRC of 1997.

16. Q. If so, how much is the informer’s reward?
   A. The reward is a sum equivalent to ten percent (10%) of the surcharges,
      revenues or fees recovered and/or fine or penalty imposed & collected, or
      One Million Pesos (P1,000,000.00) per case, whichever is lower.

For more information, please call the BIR Contact Center at telephone number
(632) 981-8888 or you may visit the BIR website @ www.bir.gov.ph