



TAX LAW FOR BUSINESS
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ITR vs. FS

A TAXPAYER in the Philippines, for purposes of efficiency in the filing and collection of taxes, is required to compute his own tax liability in accordance with his own knowledge of the tax laws and regulations. This is what you call the self-assessment method of collection.

Of course, any deficiency later on which may be found out by the Bureau of Internal Revenue (BIR) in its tax audit and investigation must be settled by the erring taxpayer plus 20-percent per-annum interest and penalties or surcharges which the latter may impose, depending on the circumstances.

As a general rule, taxpayers are required to submit an audited financial statement signed by an independent Certified Public Accountant to the BIR. This will be used primarily as a reference to confirm and verify that the amounts reflected in the audited financial statements are also the amounts indicated in the tax return of the taxpayer. Often, the BIR finds discrepancies between the two.

One of the most encountered issues in assessment is the difference between the expenses and revenues recorded in the income-tax return (ITR), as compared to the expenses and revenues as reflected in the audited financial statements (FS) of the company. Of course, the permanent or temporary difference in the reconciliation of ITR and FS will not necessarily mean that it results in a deficiency tax.

These tax findings are usually those items where rules differ between accounting rules and tax rules. In other words, the fact that there are discrepancies between the ITR and the FS could not be considered by the BIR as a source of tax leakage.

However, in reality, such differences normally lead to tax findings by the revenue officers. Very often, taxpayers are assessed with significant amounts arising from such differences and the worse part of it is that, once an assessment is issued, a taxpayer is forced to justify and show why it should not result in a tax deficiency. In the process, the burden of proving that the BIR finding is wrong is now shifted to the taxpayer who is then required to show tons of documents and justifications to the BIR. Such difficult process could be avoided if, at the onset, the BIR recognized the fact that income-tax reporting has a different set of rules compared to financial reporting. With the adoption of new accounting rules, the gap in the rules between tax and accounting has become wider and wider and the BIR should be abreast with these rules.

When assessment time comes, which is usually two or three years after the filing of the ITR, it may then be difficult for the taxpayer to go back to its records and be able to produce the documents needed, especially when there are changes in people handling the documents. There are times when the taxpayer can no longer explain the difference due to the following reasons: 1) to beat the April 15 deadline, the reconciliation of the account grouping in the ITR and audited FS was not properly documented; 2) the officers or auditors who helped in the preparation of the ITR are no longer connected with the company; 3) missing reconciliation of the account grouping; and 4) some FS accounts may have been classified and grouped differently.

To avoid the hassle of going through all these difficult process of documentation and justification, taxpayers are advised to maintain at all times a complete documentation of the reconciliation of the ITR and FS. The officer signing the tax return must require that a reconciliation worksheet must be presented and explained to him before signing the ITR. This document must be kept together with the ITR. Should the employee preparing the ITR resign or be transferred to another department, the company must require that this document be turned over to the next responsible officer for purposes of easy reference later on when the BIR audit comes.

As a taxpayer, it is our duty to pay our taxes. However, we must always be vigilant that we only pay what is legally due. It is, therefore, necessary to take preliminary caution of what lies ahead when the BIR comes and be ready with the most precious documents to justify your side.

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