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Tax compliance 101

AS the commercial for the Bureau of Internal Revenue (BIR) would say, it is easy to pay your taxes correctly: simply follow RFP—register, file and pay.

Registration is, indeed, a basic requirement under Section 236 of the National Internal Revenue Code of 1997, which imposes an obligation on every person subject to any internal-revenue tax to register with the appropriate revenue district office. Upon registration, a BIR certificate of registration (COR) is issued to the taxpayer containing his or her information, which is required to be provided upon filing for registration, including the types of taxes associated with the business activities to be pursued.

But the obligation of a taxpayer does not stop with his or her registration and the issuance of a COR. The more important obligation is associated with the filing of the required tax returns and the payment of the corresponding taxes due. Aside from paying the correct amount of taxes, there are a number of compliance requirements that a taxpayer must observe to avoid unnecessarily incurring additional taxes or penalties.

Here are just some of the basic, yet, important "do it your own" preparations or procedures that taxpayers need to observe. Start your compliance by referring to your COR. One of the usual questions is: Is the taxpayer required to file a tax return if there is no tax due, or not? The tax types indicated in the COR should be followed and the corresponding tax returns should be filed on or before their respective due dates, whether or not there are taxes due. The nonfiling of the tax returns could create stop-filer cases, which consequently results in the imposition of penalties on the taxpayer. Other taxes/returns not indicated in the COR may be filed only when taxes are required to be paid. But if the taxpayer expects that the type of tax will be regularly paid, an update of the registration should be made for the inclusion in the registered tax types.

Following the deadline for the filing of returns and payment of taxes are also crucial. The deadline for filing and payment depends on each type of tax and, in some cases, on the classification of the taxpayer (large or non-large). Also, some taxpayers are allowed to pay their tax dues a few days after filing the tax returns. This is especially true for taxpayers using the electronic payment and filing system. While the payment can be done later, it still has a deadline, which should be observed, for failing to pay on time could still result in some penalties, even if the return is filed on time.

Aside from the filing of the tax returns, there are also other information returns that are required to be filed, either as attachments to the tax returns or as separate filings. These include the monthly alphabetical list of payees, annual alphabetical list of income payments subject and exempt from withholding tax, annual alphabetical list of employees, summary lists of sales, purchases and importations, among others. The mere submission of these information returns is not sufficient. There are prescribed formats that need to be followed. Note that, based on Revenue Regulations 01-2014, the submission of any alphabetical list that does not conform to the prescribed format, which results in its unsuccessful uploading into the BIR system, shall be deemed as not received, and the related expenses may not be allowed as deduction for income-tax purposes.

It must also be emphasized that, in filing the tax returns and paying the taxes, taxpayers should foresee and consider what the taxman usually does when conducting his audit or examination. It is the usual practice of the examiners to compare the amounts of revenues/gross receipts reported by the taxpayer in its various records and returns, such as the revenues reported in the books/financial statements, income-tax returns, value-added tax/percentage tax returns and summary lists of sales. And when one document yields a higher or lower amount compared to another document, there is an assessment that is imputed.

Similarly, the expenses/assets recorded in the books are compared with the amounts reported in the withholding tax returns and the alphabetical lists of payees. An assessment is imposed for the noted discrepancies. These discrepancies are usually attributed to differences in the timing for reporting in the various books/records, tax returns and information returns. But when assessments are made out of such discrepancies, the taxpayer has the burden of explaining why these discrepancies should not result in an assessment. In effect, the burden of explaining them is shifted to the taxpayer. This means that the taxpayer should always ensure that reconciliation is readily available or its recordkeeping is sufficient to readily extract the needed information to explain the differences in the amounts indicated in various records and returns.

Finally, some taxpayers are only concerned about the compliance of their invoices and official receipts and other accountable forms, and less concerned about the appropriateness of the invoices/invoices and other documents issued to them by their suppliers or other parties that are transacting with them. Compliance with the prescribed form and information by the other parties is equally important and should be similarly checked, as noncompliance may result in the disallowance of the expense and even the claim for the related input taxes. Thus, these are as vital as the taxpayer’s own receipts and invoices.

Tax authorities can conduct an examination anytime. In fact, it can be done based merely on the financial statements, tax and other information returns filed without the benefit of a field audit. Taxpayers should, then, be always prepared by keeping the necessary records and by ensuring that the tax and other information returns are correctly prepared and filed. Be prepared, always!

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