

**REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE**

September 18, 2002

REVENUE REGULATIONS NO. 21-2002

SUBJECT : Implementing the Provisions of Section 6(H) of the Tax Code of 1997, Authorizing the Commissioner of Internal Revenue to Prescribe Additional Procedural and/or Documentary Requirements in Connection with the Preparation and Submission of Financial Statements Accompanying the Tax Returns.

TO : All Internal Revenue Officers and Others Concerned.

Pursuant to Section 244 of the Tax Code of 1997, in relation to Section 6(H) of the Same Code, these Regulations are hereby promulgated to prescribe the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements accompanying the tax returns.

SECTION 1. CONTENTS AND FORMAT OF FINANCIAL STATEMENTS TO BE ATTACHED TO THE ANNUAL INCOME TAX RETURN OR INFORMATION RETURN. – The Financial Statements with accompanying Auditor's Certificate attached to the Annual Income Tax Return, or Annual Information Return for the Tax exempt persons, as the case may be, to be filed with the Bureau of Internal Revenue, thru its collection agents including Accredited Agent Banks, shall present/state the accounts therein in a very descriptive fashion such that the nature of the specific transactions entered in the accounts are known to the reader. The account titles to be used must be specific and not control accounts which must completely be enumerated in the financial statements and these accounts must conform to the rules and requirements of regulatory agencies that have supervision over them such as the Securities and Exchange Commission (SEC), Bangko Sentral ng Pilipinas (BSP), Insurance Commission (IC), etc.

The accounts prescribed in the reports required by the SEC, BSP, IC and other regulatory bodies shall likewise be the accounts to be used by individual taxpayers who are engaged in business or in the exercise of profession, except for accounts that are peculiar to corporations and other juridical persons.

The Profit and Loss Statement/Income Statement shall show separately by segment (there should be proper labeling), with breakdown of the specific accounts, the following:

1. Cost of Goods Sold (for seller of goods)/Cost of Services (for seller of services);
- II. Selling and Administrative Expenses;
- III. Financial Expenses, if any;
- IV. Special Deductions (e.g., Net Operating Loss Carry-Over (NOLCO)), if any;
- V. Deductions under Special Laws, if any.

(Note: Deductions III, IV and V should be fully explained in the Notes to the Financial Statements)

SEC. 2. COVERAGE. – The Financial Statements shall be composed of the following :

- a) Balance Sheet;
- b) Income Statement/Profit and Loss Statement;
- c) Statement of Retained Earnings;
- d) Statement of Changes in Financial Position; and
- e) Schedules attached to the afore-cited statements.

The submission of the above statements is mandatory even if there is no income, retained earnings, etc.

All the financial statements filed with accompanying auditor's certificate as cited above shall show the comparative figures of the current year and the previous year. Thus, Financial Statements with no required Auditors Certificate as enunciated in Sec. 232 of the Tax Code of 1997 need not be presented in comparative format.

SEC. 3. RESPONSIBILITY OF EXTERNAL AUDITORS. – Unless a longer period of retention is required under the Tax Code or other relevant laws (e.g. the Accountancy Law, etc.), the independent CPA who audited the records and certified the financial statements of the taxpayer, equally as the taxpayer, has the responsibility to maintain and preserve copies of the audited and certified financial statements for a period of three (3) years from the due date of filing the annual income tax return or the actual date of filing thereof, whichever comes later. This is in addition to all other responsibilities of the independent CPA under other pertinent provisions of the Tax Code and implementing regulations, including generally accepted auditing standards, and applicable jurisprudence.

SEC. 4. PENAL PROVISIONS – Any independent Certified Public Accountant who, in his capacity as external auditor, willfully falsifies any report or statement bearing on any examination or audit, or renders a report, including exhibits, statements, schedules or other forms of accountancy work which has not been verified by him personally or under his supervision or by a member of his firm or by a member of his staff in accordance with sound auditing practices, or, certifies financial statements of a business enterprise containing an essential misstatement of facts or omission in respect of the transactions, taxable income, deduction and/or exemption of his client, shall be dealt with in accordance with Section 257 of the Tax Code.

SEC. 5. APPLICABILITY OF THESE REGULATIONS.- These Regulations shall apply to all Income Tax and Information Returns to be filed hereafter.

SEC. 6. REPEALING CLAUSE. – All existing rules, regulations and other issuances or portions thereof inconsistent with the provisions of these Regulations are hereby modified, repealed or revoked accordingly.

SEC. 7. EFFECTIVITY CLAUSE. – These Regulations shall take effect after fifteen (15) days following complete publication in a newspaper of general circulation in the Philippines.

(Original Signed)
JOSE ISIDRO N. CAMACHO
Secretary of Finance

RECOMMENDING APPROVAL:

(Original Signed)
GUILLERMO L. PARAYNO, JR.
Commissioner of Internal Revenue