

Headline	Tax, accounting and crops		
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## Tax, accounting and crops

I am a native of Ilocos. I am fortunate as half of my life was spent enjoying life in the beautiful province of La Union before I moved to Metro Manila for my undergraduate and postgraduate studies.

Now that I am an urban resident, I always look forward to spending some of my summer holidays farther north in Ilocos Sur and being surrounded by beaches and vast tracts of farmland filled with a variety of vegetable crops – staple ingredients of famous Ilocano dishes like *Pinakbet* and *Dinengdeng*.

### TOP OF MIND



**JULIUS PATRICK ACOSTA**

However, before venturing in such business, it is logical and reasonable for a farmer to consider: (1) the crops he wants to produce; (2) the land to be used for planting; and (3) the method or system of planting that would best suit the crops he wants to produce.

Similarly, understanding the procedural and jurisdictional issues related to a tax audit, as well as the power of the tax court to take cognizance of issues not raised by the parties on appeal, have similar parallels to a farmer's concerns.

In this regard, in the case of *Commissioner of Internal Revenue vs. Lancaster Philippines Inc.* (G.R. No. 183408, July 12, 2017), a case was brought up on appeal concerning the validity of the decision of the Court of Tax Appeals (CTA) allowing the tax court to question the authority of the revenue officers during a tax audit. The analogy to a farm is apt as the case actually involves a corporation engaged in the farming and production of tobacco.

As a farmer must know what plants are suitable for his farm, so too must taxpayers understand the extent to which the CTA can take rule on a matter. One of the principal issues in the *Lancaster case* was whether or not the CTA can rule on: (1) the issue of the scope of authority of the revenue officers to conduct the examination of taxpayer's books of accounts and accounting records; and (2) other issues which were not raised by the parties of the case.

The Supreme Court (SC) ruled that the CTA may review by appeal the decisions of the commissioner of internal revenue (CIR) in cases involving disputed assessments, refunds of internal revenue taxes, fees or other charges, penalties imposed in relation thereto, or "other matters" arising under the National Internal Revenue Code of 1997, as amended (Tax Code), or part of law administered by the Bureau of Internal Revenue (BIR).

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Rule XIV, Section 1 of the Revised Rules of the Court of Tax Appeals further states that the CTA is not bound by the issues specifically raised by the parties, but may also rule upon related issues necessary to achieve an orderly disposition of the case. Thus, the CTA is not limited only to cases which involve decisions or inaction on matters relating to assessments or refunds, but also includes other cases arising from the Tax Code and other related laws administered by the BIR, as well as issues not stipulated by the parties of the case.

To take the analogy further, as a farmer must respect the length and breadth of his farm, so too must a revenue officer understand the extent of the BIR's investigative powers.

The second issue was whether or not the revenue officers exceeded their authority when they issued an assessment which covers a taxable year outside the period specified in the Letter of Authority (LOA).

In the *Lancaster case*, the subject LOA specified that the examination should be for the taxable year ending March 31, 1998 (FY 1998) only, but the assessment included disallowed expenses covering the next fiscal year or the period ending March 31, 1999 (FY 1999). The taxable year covered by the assessment is obviously outside of the period specified in the LOA. Hence, the SC affirmed that the assessment issued against *Lancaster* is void.

Finally, the third issue was whether or not it was proper for *Lancaster* to use a "crop method of accounting" to determine its taxable income.

There are different farming methods and practices in growing various kinds of crops. However, a farm owner only applies such methods and practices that best suit the kinds of crops he produces. Likewise, a taxpayer should choose and apply an accounting method that would best suit its business operations to be able to accurately reflect its taxable income.

The SC primarily stated that in truth, tax cannot do away with accounting; and that the Tax Code recognizes the importance of accounting to the main objective of tax laws to collect the correct amount of taxes. This is affirmed by the fact that the Tax Code has an entire chapter devoted to accounting periods and methods

of accounting.

The Tax Code expressly recognizes the following methods of accounting: (1) cash basis method; (2) accrual method; (3) installment method; (4) percentage of completion method; and (5) other accounting methods. However, the Tax Code does not prescribe a uniform, or even specific, method of accounting as any of these methods may be used by the taxpayer as long as its income is reflected properly and such method is used regularly.

Further, under Section 43 of the Tax Code, the CIR may allow the use of a method of accounting that in its opinion would clearly reflect the income of the taxpayer. An example of such method not expressly mentioned in the Tax Code, but duly approved by the CIR, is the "crop method of accounting" authorized under Revenue Audit Memorandum Order (RAMO) No. 02-95.

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