

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila

Twentieth Congress
First Regular Session

House Bill No. **6553**



Introduced by **REP. RAYMOND ADRIAN E. SALCEDA**

AN ACT
AMENDING SECTIONS 6, 115, 228, 236, 248, AND 204 OF THE NATIONAL
INTERNAL REVENUE CODE OF 1997, AS AMENDED, INTRODUCING NEW
SECTIONS 6-A, 6-B, AND 236-A, TO RATIONALIZE LETTERS OF AUTHORITY,
ESTABLISH A VOLUNTARY ADJUSTMENT SYSTEM, AND MODERNIZE
REGISTRATION AND DEREGISTRATION PROCEDURES, AND FOR OTHER
PURPOSES

EXPLANATORY NOTE

The National Internal Revenue Code of 1997 establishes the assessment, enforcement, and registration framework that governs the relationship between taxpayers and the Bureau of Internal Revenue. Over time, however, several procedural gaps have emerged that undermine audit integrity, prevent honest taxpayers from correcting their returns, and impose unnecessary burdens on enterprises that are closing or that are still in their early, pre-operational stages.

First, the system of Letters of Authority has grown increasingly complex and has burdened both taxpayers and the Bureau. The absence of statutory limits on the issuance, scope, and renewal of Letters of Authority has resulted in inconsistent audit practices, overlapping authorizations, and uncertainty as to when an audit has truly commenced or concluded. This undermines audit efficiency and weakens the ability of the Bureau to concentrate its enforcement resources on high-risk taxpayers.

Second, the Code does not provide a safe and predictable mechanism for taxpayers to voluntarily increase their declared tax liabilities when they discover errors or omissions in previously filed returns. While the Bureau may administratively accept amended filings, there is no statutory assurance that such voluntary corrections will not expose taxpayers to penalties or duplicate audits. This discourages honest self-correction, increases the risk of disputes, and reduces the likelihood that taxpayers will proactively comply with the spirit of the law.

Third, the procedures for deregistration and business closure remain difficult and unpredictable. Taxpayers who cease operations are subject to potentially open-ended documentary and audit requirements, even when they have no remaining taxable activity. This deters formalization and contributes to administrative backlogs. A predictable and time-bound deregistration mechanism is essential to maintaining a fair and functional tax system.

Fourth, the Code does not recognize the unique procedural circumstances of early-stage enterprises. Startups often begin with a period of experimentation, limited revenue activity, and pre-operational development. During this phase, they face the full compliance burdens of a fully operational business despite having minimal taxable transactions. Providing a defined, limited startup registration track would promote ease of doing business without granting any tax incentives or reducing any tax liability.

This measure addresses these gaps through targeted amendments.

It introduces statutory rules on the issuance, scope, expiration, and renewal of Letters of Authority. It establishes clear limits on the number of Letters of Authority that may be issued for a taxpayer in a taxable year, mandates the use of risk-based criteria, and provides that audits may not be reopened except in cases of fraud, mathematical error, or the existence of information already and lawfully in the possession of the Bureau that contradicts the taxpayer's return.

It creates a Voluntary Adjustment system that allows taxpayers to increase declared tax liabilities for previously filed returns without fear of penalties or multiple audits, subject to strict conditions. This encourages honesty and strengthens the culture of voluntary compliance without reducing any tax obligations.

It modernizes deregistration by imposing timelines, limiting documentary requirements, and ensuring that taxpayers who cease operations are not subject to indefinite administrative processes.

It creates a procedural startup registration track that simplifies compliance for new enterprises during their initial eighteen months of pre-operational activity without granting any preferential tax treatment.

Taken together, these reforms strengthen audit integrity, promote voluntary compliance, support ease of doing business, and allow the Bureau of Internal Revenue to focus its enforcement resources where they matter most.

These reforms are summarized as follows:

Subject Matter	Current NIRC Provisions	Proposed Amendments
Commencement of audit	The Code does not expressly state that no audit may begin without a valid Letter of Authority. The requirement exists only in regulations.	Express statutory rule that no audit or investigation shall begin without a valid Letter of Authority identifying the taxpayer, period, subject matter, and authorized officers.

Subject Matter	Current NIRC Provisions	Proposed Amendments
Number of Letters of Authority per year	No statutory limit. Multiple Letters of Authority may be issued for the same period.	Only one Letter of Authority per taxpayer per taxable year. Any second or further Letter of Authority is void , except for fraud or BIR-held contradictory information.
Expiration of Letters of Authority	No statutory expiration. Expiration appears only in revenue issuances and is inconsistently applied.	Letters of Authority expire after twelve months. Renewal allowed only with BIR-held contradictory information.
Basis for issuing a Letter of Authority	No requirement for risk scoring. Audits may be initiated without transparent criteria.	Letters of Authority must be based on a formal risk scoring process and must be generated through a digital system with an audit trail.
Reopening of closed audits	Not expressly prohibited in statute. Reopening may occur through new or separate Letters of Authority.	Closed audits are final. Reopening allowed only for fraud, mathematical error, or BIR-held contradictory information already lawfully possessed by the BIR.
Definition of contradictory information	No statutory definition. Wide discretion leads to inconsistent practices.	Creates a statutory definition: information lawfully in the possession of the BIR, not supplied by the taxpayer, and not protected by bank secrecy or confidentiality laws.
Voluntary correction of tax returns	Section 6(A) allows amendments within three years, but voluntary upward corrections expose taxpayers to penalties and audits. No statutory safe harbor.	Creates a Voluntary Adjustment system: taxpayers may increase declared tax liability without penalties if paid promptly, subject to strict eligibility conditions. Bar on issuance of a Letter of Authority for the same period once accepted.
Scope of voluntary adjustments	No framework for distinguishing acceptable from unacceptable amendments.	Limits voluntary adjustments to increase-only corrections , explicitly enumerating acceptable purposes such as underdeclarations, misclaims,

Subject Matter	Current NIRC Provisions	Proposed Amendments
		under-remittances, or computation errors.
Prohibited uses of voluntary adjustments	No prohibitions exist.	Voluntary adjustments cannot be used to reduce tax, reclassify income to lower liability, claim refunds, adjust registration, alter transfer pricing positions, or substitute for protests or judicial remedies.
Deregistration procedures	Deregistration may take several months and is dependent on open-ended requirements. No statutory timelines.	BIR must act on a notice of cessation within fifteen days . Only one closure-related Letter of Authority allowed and must be resolved within ninety days . Deregistration becomes automatic after thirty days if no Letter of Authority is issued.
Documentary requirements for closure	May vary by office; additional documents are often required even when not supported by statute.	No documentary requirements may be imposed for deregistration except those expressly provided in the Code.
Startup compliance obligations	No distinction between pre-operational or newly registered enterprises and fully operational businesses.	Introduces a Startup Registration Track covering the first eighteen months. Simplified returns. No routine Letters of Authority unless fraud or BIR-held contradictory information exists. Declarative transition to full compliance upon operational start.
Relationship to compromise authority	Voluntary amendments may be misinterpreted as compromises, requiring Evaluation Board approval.	Clarifies that a voluntary adjustment is not a compromise under Section 204.
Penalties for self-correction	A taxpayer who voluntarily corrects underdeclared taxes remains subject to surcharges and interest.	Removes surcharges and penalties for voluntary upward adjustments paid within the prescribed period .

In view of the foregoing, the approval of this measure is earnestly sought.

RAYMOND ADRIAN E. SALCEDA



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Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled:

1 SECTION 1. Section 6 of the National Internal Revenue Code of 1997, as amended, is
2 hereby further amended to read as follows:

3 Sec. 6. Power of the Commissioner to Make Assessments and Prescribe
4 Additional Requirements for Tax Administration and Enforcement. –

5 (A) xxx

6 (B) xxx

7 (C) xxx

8 (D) xxx

9 (E) xxx

10 (F) xxx

11 (G) xxx

12 (H) xxx

13 **(I) THE FOLLOWING RULES SHALL GOVERN THE ISSUANCE,**
14 **SCOPE, EXPIRATION, RENEWAL, AND FINALITY OF LETTERS OF**
15 **AUTHORITY:**

1 (1) NO AUDIT OR INVESTIGATION SHALL BE INITIATED
2 WITHOUT A VALID LETTER OF AUTHORITY ISSUED IN
3 ACCORDANCE WITH THIS CODE.

4 (2) A LETTER OF AUTHORITY SHALL BE GENERATED
5 EXCLUSIVELY THROUGH A DIGITAL SYSTEM THAT RECORDS
6 THE RISK BASIS, APPROVAL HISTORY, AND SCOPE OF THE AUDIT.

7 (3) A LETTER OF AUTHORITY SHALL BE ISSUED ONLY UPON
8 A FORMAL RISK SCORING PROCESS IDENTIFYING SPECIFIC
9 HIGH-RISK INDICATORS.

10 (4) ONLY ONE LETTER OF AUTHORITY PER TAXPAYER PER
11 TAXABLE YEAR SHALL BE PERMITTED. ANY LETTER OF
12 AUTHORITY ISSUED IN EXCESS OF THIS LIMIT SHALL BE VOID.

13 (5) A LETTER OF AUTHORITY SHALL EXPIRE TWELVE
14 MONTHS FROM THE DATE OF ISSUANCE, UNLESS RENEWED
15 EXCLUSIVELY ON THE BASIS OF BIR-HELD CONTRADICTIONARY
16 INFORMATION.

17 (6) TAXPAYERS CLASSIFIED AS LOW RISK SHALL NOT BE
18 ISSUED LETTERS OF AUTHORITY, EXCEPT IN CASES OF FRAUD.

19 (7) A CLOSED AUDIT SHALL BE FINAL AND SHALL NOT BE
20 REOPENED EXCEPT IN CASES OF FRAUD, MATHEMATICAL
21 ERROR, OR WHERE BIR-HELD CONTRADICTIONARY INFORMATION
22 IS DISCOVERED.

23 (8) THE COMMISSIONER SHALL ANNUALLY DISCLOSE
24 AGGREGATE INFORMATION ON LETTERS OF AUTHORITY,
25 INCLUDING TOTAL ISSUED, TOTAL CLOSED, AND AVERAGE
26 RESOLUTION TIME, PROVIDED THAT NO INDIVIDUAL TAXPAYER
27 INFORMATION SHALL BE REVEALED.

28
29 SEC. 2. A new Section 6-A is hereby inserted to read as follows:

30 Sec. 6-A. Letters of Authority. –

31 A LETTER OF AUTHORITY IS A FORMAL WRITTEN
32 AUTHORIZATION ISSUED BY THE COMMISSIONER OR A DULY
33 DELEGATED OFFICER THAT LEGALLY COMMENCES AN AUDIT OR
34 INVESTIGATION. NO AUDIT SHALL PROCEED WITHOUT A VALID
35 LETTER OF AUTHORITY.

1 A LETTER OF AUTHORITY SHALL SPECIFY THE TAXPAYER,
2 THE TAXABLE PERIOD COVERED, THE SUBJECT MATTER OF THE
3 AUDIT, AND THE NAMES OF THE AUTHORIZED REVENUE
4 OFFICERS. FAILURE TO STATE ANY OF THESE SHALL RENDER THE
5 LETTER OF AUTHORITY VOID.

6 A LETTER OF AUTHORITY SHALL BE GENERATED
7 EXCLUSIVELY THROUGH A DIGITAL SYSTEM THAT IS CAPABLE
8 OF RECORDING THE RISK BASIS, APPROVAL HISTORY, AND SCOPE
9 OF THE AUDIT AND SHALL BE TAMPER PROOF.

10 ONLY ONE LETTER OF AUTHORITY PER TAXABLE YEAR
11 MAY BE ISSUED TO A TAXPAYER.

12 A LETTER OF AUTHORITY SHALL EXPIRE WITHIN TWELVE
13 MONTHS FROM ISSUANCE. ANY RENEWAL SHALL REQUIRE BIR-
14 HELD CONTRADICTIONARY INFORMATION.

15 A CLOSED AUDIT SHALL BE FINAL AND SHALL NOT BE
16 REOPENED EXCEPT IN CASES OF FRAUD, MATHEMATICAL ERROR,
17 OR BIR-HELD CONTRADICTIONARY INFORMATION.

18 FOR PURPOSES OF THIS CODE, BIR-HELD CONTRADICTIONARY
19 INFORMATION SHALL REFER ONLY TO INFORMATION LAWFULLY
20 IN THE POSSESSION OF THE BUREAU OF INTERNAL REVENUE, NOT
21 SUPPLIED BY THE TAXPAYER, THAT DIRECTLY CONTRADICTS A
22 MATERIAL ITEM IN THE TAXPAYER'S RETURN. INFORMATION
23 SUBJECT TO CONFIDENTIALITY UNDER EXISTING LAWS,
24 INCLUDING BANK SECRECY AND PRIVACY LAWS, SHALL NOT
25 CONSTITUTE BIR-HELD CONTRADICTIONARY INFORMATION.

26
27 SEC. 3. A new Section 6-B is hereby inserted to read as follows:

28 Sec. 6-B. Voluntary Adjustment of Tax Liability. –

29 A VOLUNTARY ADJUSTMENT SHALL REFER EXCLUSIVELY
30 TO A TAXPAYER'S VOLUNTARY INCREASE OF DECLARED TAX
31 LIABILITY FOR A PREVIOUSLY FILED RETURN FOR A TAXABLE
32 PERIOD FOR WHICH A RETURN IS REQUIRED AND HAS BEEN FILED
33 IN ACCORDANCE WITH THIS CODE. A VOLUNTARY ADJUSTMENT
34 SHALL AT ALL TIMES RESULT IN AN INCREASE IN TAX DUE AND
35 SHALL NOT BE USED TO REDUCE, OFFSET, OR MINIMIZE ANY TAX
36 LIABILITY.

1 **A VOLUNTARY ADJUSTMENT NOTICE MAY BE FILED ONLY**
2 **FOR THE FOLLOWING ACCEPTABLE PURPOSES:**

- 3 **(1) TO CORRECT AN UNDERDECLARATION OF GROSS**
4 **SALES, RECEIPTS, OR INCOME;**
5 **(2) TO CORRECT AN OVERCLAIM OR MISCLAIM OF DEDUCTIONS,**
6 **EXEMPTIONS, OR EXCLUSIONS;**
7 **(3) TO CORRECT AN UNDERCOMPUTATION OF VALUE-ADDED**
8 **TAX, PERCENTAGE TAX, EXCISE TAX, OR ANY OTHER**
9 **TRANSACTION-BASED TAX;**
10 **(4) TO CORRECT ANY ERROR IN THE COMPUTATION OF TAX DUE**
11 **THAT RESULTS IN AN INCREASE IN LIABILITY;**
12 **(5) TO REPORT ADDITIONAL TAX DUE ARISING FROM NEWLY**
13 **DISCOVERED DOCUMENTS, LATE ACCOUNTING ENTRIES,**
14 **OMISSIONS, OR MISSTATEMENTS;**
15 **(6) TO RECTIFY ANY OTHER ERROR IN A RETURN THAT WOULD**
16 **RESULT IN AN INCREASE IN TAX DUE, SUBJECT TO**
17 **REGULATIONS;**
18 **(7) TO CORRECT ANY UNDERREMITTANCE OR UNDERREPORTING**
19 **OF TAXES REQUIRED TO BE WITHHELD AND PAID BY A**
20 **WITHHOLDING AGENT;**
21 **(8) TO CORRECT MISCLASSIFICATIONS THAT RESULT IN AN**
22 **INCREASE IN TAX LIABILITY.**

23 **A VOLUNTARY ADJUSTMENT NOTICE SHALL NOT BE**
24 **ACCEPTED FOR THE FOLLOWING PURPOSES:**

- 25 **(A) TO CLAIM REFUNDS, TAX CREDITS, OFFSETTING, OR**
26 **ANY FORM OF REDUCTION OF TAX LIABILITY;**
27 **(B) TO REDUCE, RECLASSIFY, OR MODIFY ITEMS IN A MANNER**
28 **THAT LOWERS TAX LIABILITY;**
29 **(C) TO AMEND TAXPAYER REGISTRATION INFORMATION;**
30 **(D) TO MODIFY TAX CLASSIFICATIONS, RATES, STATUSES, OR**
31 **ACCOUNTING POLICIES;**
32 **(E) TO ALTER TRANSFER PRICING POSITIONS ORM COST**
33 **ALLOCATIONS TO REDUCE LIABILITY;**
34 **(F) TO SUBSTITUTE FOR AN AMENDED RETURN UNDER SECTION**
35 **6(A) OR ANY ADMINISTRATIVE OR JUDICIAL REMEDY PROVIDED**
36 **IN THIS CODE;**
37 **(G) TO AVOID, DELAY, OR INTERRUPT ANY ONGOING AUDIT, OR**
38 **ANY CASE WHERE BIR-HELD CONTRADICTORY INFORMATION**
39 **EXISTS.**

1 **A VOLUNTARY ADJUSTMENT NOTICE MAY BE FILED ONLY**
2 **IF THE TAXPAYER:**

3 **(1) HAS NOT BEEN SERVED OR ISSUED A LETTER OF**
4 **AUTHORITY COVERING THE SAME TAXABLE PERIOD AND**
5 **SUBJECT MATTER;**
6 **(2) HAS NOT RECEIVED A PRELIMINARY ASSESSMENT NOTICE OR**
7 **FINAL ASSESSMENT NOTICE COVERING THE SAME ITEMS;**
8 **(3) FILES THE NOTICE WITHIN THREE (3) YEARS FROM THE DATE**
9 **OF FILING OF THE ORIGINAL RETURN, SUBJECT TO THE**
10 **EXCEPTIONS UNDER SECTION 203; AND**
11 **(4) MAKES FULL PAYMENT OF THE ADDITIONAL TAX AT THE**
12 **TIME OF FILING.**

13 **PAYMENTS MADE UNDER A VOLUNTARY ADJUSTMENT**
14 **NOTICE WITHIN THE PRESCRIBED PERIOD SHALL NOT BE**
15 **SUBJECT TO PENALTIES, SURCHARGES, OR INTEREST.**

16 **THE FILING OF A VOLUNTARY ADJUSTMENT NOTICE THAT**
17 **MEETS ALL THE CONDITIONS OF THIS SECTION SHALL BAR THE**
18 **ISSUANCE OF A LETTER OF AUTHORITY FOR THE SAME PERIOD**
19 **AND SUBJECT MATTER, EXCEPT WHERE FRAUD IS ESTABLISHED**
20 **OR WHERE BIR-HELD CONTRADICTIONARY INFORMATION EXISTS.**

21 **A VOLUNTARY ADJUSTMENT NOTICE FILED IN**
22 **ACCORDANCE WITH THIS SECTION SHALL BE TREATED AS A**
23 **FINAL ASSESSMENT FOR PURPOSES OF SECTIONS 203 AND 228.**
24

25 SEC. 4. Section 115 of the National Internal Revenue Code of 1997, as amended, is hereby
26 further amended to read as follows:

27 Sec. 115. Power of the Commissioner to Suspend the Business Operations
28 of a Taxpayer. –
29 xxx

30 **NO ORDER OF SUSPENSION OR CLOSURE SHALL BE ISSUED**
31 **AGAINST A TAXPAYER WHO HAS FILED A NOTICE OF CESSATION**
32 **IN GOOD FAITH, EXCEPT WHERE FRAUD IS ESTABLISHED OR**
33 **WHERE BIR-HELD CONTRADICTIONARY INFORMATION EXISTS.**

34 SEC. 5. Section 228 of the National Internal Revenue Code of 1997, as amended, is hereby
35 further amended to read as follows:
36

1 Sec. 228. Protesting of Assessment. –

2 xxx

3 **NO PRELIMINARY ASSESSMENT NOTICE OR FINAL**
4 **ASSESSMENT NOTICE SHALL BE ISSUED FOR ANY ITEM OR**
5 **PERIOD COVERED BY A VOLUNTARY ADJUSTMENT NOTICE**
6 **UNDER SECTION 6-B, EXCEPT IN CASES OF FRAUD OR WHERE**
7 **BIR-HELD CONTRADICTORY INFORMATION EXISTS.**

8
9 SEC. 6. Section 236 of the National Internal Revenue Code of 1997, as amended, is hereby
10 further amended to read as follows:

11 Sec. 236. Registration Requirements. –

12 xxx

13 **THE COMMISSIONER SHALL ACT ON A NOTICE OF**
14 **CESSATION WITHIN FIFTEEN DAYS FROM FILING. ONLY ONE**
15 **FINAL LETTER OF AUTHORITY MAY BE ISSUED IN CONNECTION**
16 **WITH DEREGISTRATION, AND SUCH LETTER OF AUTHORITY**
17 **SHALL BE RESOLVED WITHIN NINETY DAYS.**

18 **IF NO LETTER OF AUTHORITY IS ISSUED WITHIN THIRTY**
19 **DAYS FOR THE FILING OF THE NOTICE OF CESSATION,**
20 **DEREGISTRATION SHALL BE AUTOMATIC.**

21 **NO DOCUMENTARY REQUIREMENTS SHALL BE IMPOSED**
22 **FOR DEREGISTRATION OTHER THAN THOSE EXPRESSLY**
23 **PROVIDED IN THIS CODE.**

24
25 SEC. 7. A new Section 236-A is hereby inserted to read as follows:

26 **SEC. 236-A. STARTUP REGISTRATION TRACK. –**

27 **A STARTUP IS A TAXPAYER WITHIN EIGHTEEN MONTHS**
28 **FROM INITIAL REGISTRATION, UNLESS A DECLARATION OF**
29 **OPERATIONAL START IS FILED.**

30 **DURING THE STARTUP PERIOD, THE TAXPAYER SHALL FILE**
31 **SIMPLIFIED RETURNS AND SHALL NOT BE SUBJECT TO ROUTINE**
32 **LETTERS OF AUTHORITY. ONLY LETTERS OF AUTHORITY BASED**
33 **ON FRAUD OR BIR-HELD CONTRADICTORY INFORMATION MAY BE**
34 **ISSUED.**

1 **A STARTUP SHALL FILE A DECLARATION OF OPERATIONAL**
2 **START UPON COMMENCEMENT OF COMMERCIAL OPERATIONS,**
3 **AFTER WHICH THE TAXPAYER SHALL TRANSITION TO REGULAR**
4 **COMPLIANCE REQUIREMENTS.**

5
6
7 SEC. 8. Section 248 of the National Internal Revenue Code of 1997, as amended, is hereby
8 further amended to read as follows:

9 Sec. 248. Civil Penalties. –
10 xxx

11 **NO SURCHARGE OR PENALTY SHALL APPLY TO AMOUNTS**
12 **PAID THROUGH A VOLUNTARY ADJUSTMENT NOTICE UNDER**
13 **SECTION 6-B WHEN PAID WITHIN THE PRESCRIBED PERIOD.**

14
15
16 SEC. 9. Section 204 of the National Internal Revenue Code of 1997, as amended, is hereby
17 further amended to read as follows:

18 Sec. 204. Authority of the Commissioner to Compromise, Abate and
19 Refund or Credit Taxes. –
20 xxx

21 **FOR THE AVOIDANCE OF DOUBT, A VOLUNTARY**
22 **ADJUSTMENT UNDER SECTION 6-B SHALL NOT BE DEEMED A**
23 **COMPROMISE.**

24
25 SEC. 10. Separability Clause. -- If any section or provision of this franchise is held or
26 declared unconstitutional or invalid by a competent court in a final judgment, the other sections or
27 provisions hereof shall continue to be in force as if the section or provision so annulled or voided
28 had never been incorporated in this franchise.

29
30 SEC. 11. Repealing Clause. -- All laws, decrees, orders, instructions, and rules and
31 regulations, or parts thereof, which are inconsistent herewith are hereby repealed or modified
32 accordingly.

33
34 SEC. 12. Effectivity. -- This Act shall take effect fifteen (15) days after its publication in
35 the Official Gazette or in a newspaper of general circulation.

36
37 Approved,