

ACCOUNTING METHODS TO BE USED BY TAXPAYERS FOR INTERNAL REVENUE TAX PURPOSES

REVENUE MEMORANDUM CIRCULAR NO. 44-2002, SEPTEMBER 17, 2002, September 17, 2002

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It has been observed that there are taxpayers who file their tax returns under an accounting method that is different from the method followed in keeping their books of accounts. This practice is devoid of legal basis and runs counter to the provisions of Sec. 43 of the National Internal Revenue Code (NIRC) of 1997 which reads as follows:

"SEC. 43. General Rule. — The taxable income shall be computed upon the basis of the taxpayer's annual accounting period (fiscal year or calendar year, as the case may be) in accordance with the method of accounting regularly employed in keeping the books of such taxpayer; but if no such method of accounting has been so employed, or if the method employed does not clearly reflect the income, the computation shall be made in accordance with such method as in the opinion of the Commissioner clearly reflects the income. If the taxpayer's annual accounting period is other than a fiscal year, as defined in Section 22(Q), or if the taxpayer has no annual accounting period, or does not keep books, or if the taxpayer is an individual, the taxable income shall be computed on the basis of the calendar year."

Whenever there are differences between the provisions of the Tax Code and its implementing rules and regulations, on one hand, and the generally accepted accounting principles (GAAP) and generally accepted auditing standards (GAAS), on the other hand, the same must be fully disclosed in the financial statements and/or income tax returns. For this purpose, that portion of the income tax return intended for the reconciling items shall always be properly accomplished. In any event, the income tax return and all other tax returns, for that matter, shall always conform with internal revenue laws, rules, regulations and other issuances.

Thus, the aforementioned practice should be stopped immediately and all returns prepared following aforesaid practice should be dealt with in accordance with the appropriate provisions of the law.

All internal revenue officials and employees are enjoined to give this circular as wide a publicity as possible.

Adopted: 17 Sept. 2002

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

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