

REVENUE MEMORANDUM ORDER NO. 21-2020 issued on July 10, 2020 prescribes the policies, guidelines and procedures for the inspection or supervision of the destruction/disposal and determination of deductible expense pertaining to inventory of goods/assets which have been declared as waste or obsolete.

The "Application for Destruction/Disposal of Goods/Assets" shall be filed with and processed by the concerned Large Taxpayer (LT) Office or Revenue District Office (RDO) where the principal place of business of the taxpayer is registered.

The said Application shall be filed by the taxpayer in duplicate copies, together with complete documentary requirements listed in the Order, at least seven (7) days before the proposed scheduled date of destruction/disposal of the inventories/equipment. Only applications with complete documents shall be processed by the concerned Office.

The BIR shall inform the taxpayer-applicant within five (5) days from receipt of application as to the approved manner of witnessing and schedule of destruction/disposal. If the method approved is through a third party, the Bureau shall issue a letter to the third party, through the taxpayer, within the same period. All expenses incidental to the witnessing shall be for the account of the taxpayer.

In the event that the destruction/disposal activity cannot be completed in one (1) day, the same may be scheduled in a manner acceptable to both the taxpayer and the BIR or BIR authorized representative until the total volume applied for has been entirely destroyed or disposed of. The date of the destruction shall be scheduled on regular working days. However, destruction may be conducted on a weekend or on a non-working holiday subject to prior approval by the BIR.

The valuation that will be used for the inventory or assets to be disposed/destroyed shall be the actual cost. If the actual cost cannot be accurately determined, the inventory valuation maintained and used by the taxpayer shall be adopted subject to adjustment upon verification during the audit. In the case of fixed assets, the carrying book value shall be considered.

Deduction of losses for Income Tax purposes arising from inventory destruction or disposal shall be allowed after witnessing in accordance with this Order and issuance of the "Certificate of Deductibility of Goods/Assets Destroyed/Disposed". The BIR shall issue the said certificate within five (5) days from the date of submission by the taxpayer of the complete documents (e.g. photos and videos, inventory count sheet, etc.) of destruction/disposal.

In case the inventories/assets applied for disposal are, for any reason or cause, replaced/substituted by its supplier, or the taxpayer shall become entitled to reimbursement for the partial or equivalent value thereof by an insurance company, the claim for the deductibility of the value thereof shall be denied.

In case any discrepancy is discovered in the course of the evaluation and verification of the application for deductibility, and that it was determined that the taxpayer has already claimed such deductions for Income Tax purposes, the taxpayer shall be subjected to mandatory audit. Any scrap or salvage value, as may be subsequently determined, shall be declared as other income.

The corresponding reports bearing on the results of inventory destruction as well as the "Certificate of Deductibility of Goods/Assets Destroyed/Disposed" shall be approved by the Assistant Commissioner-Large Taxpayers Service (LTS) or Regional Director, which may be delegated in writing to the Division Chiefs of the LT Office/RDO having jurisdiction over the applicant-taxpayer.

Destruction/disposal of goods, products and articles subject to Excise Tax shall be witnessed/validated by the authorized BIR official from the Excise Tax Divisions of the LTS.