

REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

16 October 2009

REVENUE MEMORANDUM ORDER No. 31-2009

TO: All Internal Revenue Officers and Others Concerned

SUBJECT: Policies and Guidelines for the Reporting of Casualty Losses

I. OBJECTIVES

The past three weeks have witnessed the passage of two (2) weather systems – Typhoons *Ondoy* and *Pepeng* – through the Philippines' area of responsibility. In this regard, it is anticipated that a significant number of taxpayers shall claim deductions for casualty losses sustained as a result of the destruction wrought by these two weather systems throughout Luzon.

As such, this Order is being issued to prescribe the policies and guidelines that shall govern the declaration of casualty losses incurred by taxpayers, and the reporting of such losses filed at the concerned Revenue District Offices (RDOs).

II. POLICIES AND GUIDELINES

A. Requirements for the Filing of Claims of Casualty Loss

1. Sworn Declaration of Loss (Annex A of this Order), **to be filed within forty-five (45) days after the date of the event**, stating the following:
 - Nature of the event that gave rise to such loss(es), and the time of its occurrence;
 - Description and location of the damaged property(ies);
 - Items needed to compute the loss(es), such as: a) cost or other basis of the property(ies); b) depreciation allowed, if any; c) value of the property(ies) before and after the event; d) cost of repair.
 - Amount of insurance or other compensation received or receivable.
- 1.1. The Sworn Declaration of loss must be supported by the following documents:
 - The Financial Statement for the year immediately preceding the event; and,
 - Copies of the Insurance Policy(ies), if any, for the concerned property(ies).

2. Proof of the elements of the loss(es) claimed, such as, but not limited to, the following:

- Photographs of the property(ies):
 - Photographs taken showing the property(ies) before the typhoon; and,
 - Photographs taken after the typhoon, showing the extent of the damage sustained
- Documentary evidence for determining the cost or valuation of the damaged property(ies), such as, but not limited to: cancelled checks, vouchers, receipts, and other evidence of costs
- Insurance policy, in the event that there is an insurance coverage for the property(ies)
- Police report, in cases of robbery / theft during the typhoon and / or as a consequence of looting.

Failure to report a theft or robbery to the police can be held against the taxpayer. However, a mere report of an alleged theft or robbery to the police authorities is not considered as conclusive proof of the loss arising therefrom.

All documents and other evidence submitted to prove such loss(es) shall be subject to verification by the concerned Bureau office, and should be kept by the taxpayer as part of his tax records, and be made available to the duly-authorized Revenue Officer(s), upon audit of his Income Tax return and the declaration of loss.

B. Requisites for Deductibility

1. A taxpayer engaged in trade or business may be entitled to claim, as business deductions, casualty losses incurred for properties actually used in the business enterprise that were damaged and reported as losses in the appropriate declaration filed with the BIR. The loss of assets not used in the course of business and / or are personal in nature shall therefore not be allowed.
2. Properties that shall be reported as casualty losses must have been properly reported as part of the taxpayer's assets in the taxpayer's accounting records and financial statements in the year immediately preceding the occurrence of the loss, with the costs of acquisition clearly established and recorded. Otherwise, the claim for deduction shall not be allowed.
3. The recovery of casualty losses through insurance claims shall be governed by the guidelines set forth in Revenue Regulations (RR) No. 12-77. Moreover, the amount of loss that shall be compensated by insurance coverage should not be claimed as a deductible loss.
 - 3.1. If the insurance proceeds exceed the net book value of the damages assets, such excess shall be subject to the regular Income Tax, but not to the Value-Added Tax, since the indemnification is not an actual sale of goods by the insured company to the insurance company.
4. In addition to the policies prescribed in RR No. 12-77 relative to the substantiation of casualty losses arising from typhoons and other natural disasters, the following guidelines shall be observed:

4.1. The deduction of assets as capital losses must be properly recorded in accounting reports, with the adjustment of the applicable accounts. The accounting entry to record this action is illustrated as follows:

Debit:	Casualty Loss	P xx,xxx,xxx.xx	
	Accumulated Depreciation	xx,xxx,xxx.xx	
Credit:	Property / Asset Account		P xx,xxx,xxx.xx

In the event of a total loss / destruction of property(ies) used in the business enterprise, the net book value (costs less accumulated depreciation) immediately preceding the natural disaster should be used as the basis in claiming casualty losses, and shall be reduced by the amount of insurance proceeds received.

4.2. The restoration of the damaged property, or the acquisition of new property to replace it, must be properly recorded and recognized as either: a) a repairs expense; or, b) a capitalized asset.

The appropriate treatment of this property shall be governed by the financial accounting and tax accounting rules, and must take into account the nature of the transaction, the value of the amounts involved, and other factors.

C. Monitoring and Reporting of Claims for Casualty Losses

1. All revenue personnel are enjoined to exert every effort to assist taxpayers who wish to file claims for casualty losses.
2. All RDOs should ensure that samples of the format to be used in the preparation of the Sworn Declaration of Loss are readily available upon request of the taxpayer. The RDOs must initiate a campaign to inform the taxpaying public within their respective jurisdictions of the policies and guidelines for the filing of claims for casualty losses.
3. All RDOs shall submit to the Deputy Commissioner (Operations Group), through the concerned Regional Director, copy furnished the Office of the Senior Deputy Commissioner, a Report on Casualty Losses for the month of October 2009, using the format prescribed in Annex B of this Order, not later than November 10, 2009.

A Final Report on Casualty Losses must be submitted, following the aforesaid channels, not later than December 10, 2009. A Consolidated Report shall then be submitted by the Deputy Commissioner (Operations Group) to the Commissioner, not later than December 31, 2009.

This Order shall take effect immediately.

(Original Signed)
SIXTO S. ESQUIVIAS IV
Commissioner of Internal Revenue