



Audit Publication

1. Introduction

- a. Internal Revenue Department (IRD) collects tax for the prosperity of all citizens. The taxes can be properly collected only when people understand the purpose of tax collection and tax laws, and willingly pay their taxes.
- b. IRD helps people comply with the tax laws through the information available on our IRD's website, booklets and guides, advisory services and through local tax offices.
- c. Under Official Assessment System:
 - The taxpayer is required to declare his/her income in the Return Form and submit the Return Form to the IRD before deadline. IRD will send demand notice to the taxpayer if the return is not filed;
 - IRD then discusses with the taxpayer on the contents of the return, based on the available information; and IRD may request more required documents and audits these documents;
 - IRD makes an assessment;
 - A Notice to pay tax is sent to the taxpayer;
 - the tax indicated in the Notice shall be paid;
 - If the taxpayer is not satisfied with the assessment, he may appeal step by step within the stipulated time. He may apply for the assessment to be amended if the prescribed period is over;
 - If the payment is not made within the stipulated time, IRD will follow the recovery process;
- d. Under Self-Assessment System, taxpayers assess themselves on the income they have received or have accrued and pay the tax which they themselves compute on their income.

Under Self-Assessment System,

- A taxpayer is still required to complete and submit the Return Form by the prescribed dates. IRD will send a notice to the taxpayer if the return is not filed.
 - The return submitted will be deemed correct and IRD will not do any assessment to the taxpayer.
 - IRD will send a notice which describes the tax amount payable stated in the submitted return.
 - IRD will select the taxpayers' companies with high risks of reducing tax to be audited by using Risk Management Process based on their submitted returns.
 - Through an audit process, IRD makes an adjustment to the taxpayer's assessment. If the taxpayer is not satisfied with the amended assessment, he may appeal step by step within the prescribed period. He may apply for the assessment to be amended if the prescribed period is over.
 - If the payment is not made within the stipulated time or the extended time, IRD will follow the recovery process.
- e. In both of the official assessment system and self-assessment system, taxpayer must keep full and accurate records of his/her business in Myanmar and/or English for at least three years after the assessment.

2. The Purpose of Auditing

- (a) IRD auditing is an examination of taxpayer's financial affairs in order to make sure that taxpayer has paid the correct amount of tax and has complied with the tax laws or not. The purpose is to improve voluntary compliance, to clarify the tax-related provisions that are needed to be explained and to make sure the tax liable is properly rational to their income.
- (b) There are various types of auditing on different businesses (State Owned, Co-operative and Private Sector). Auditing might simply be a check of a return or it could be a full examination of business and individual record. After an audit, the re-assessment may be made and the taxpayer may be entitled to a refund or may have to pay more tax.

3. Basic elements in selecting a taxpayer to be audited

- (a) There are many reasons to select a taxpayer to be audited, for example:
- Taxpayer's compliance in doing their business or current activities;
 - the figures stated in the income tax return;
 - the tax liability based on documents submitted by the taxpayer;
 - available information or random selection;
 - the net loss.
- (b) Tax officers from the compliance section will select the taxpayers to be audited, by using the computer system which is based on the above-mentioned conditions or taxpayers' compliance.
- (c) IRD will not disclose the taxpayers the reason why they are selected for an audit. However, IRD may inform the taxpayers on which area is focused for auditing.

4. Informing the taxpayers and starting an audit

- (a) After selecting a company to be audited, IRD will send an official letter to the taxpayer. In this letter, IRD requests the taxpayer to reply the available date of meeting by letter, to assign a representative of their company and to submit the power of attorney that includes company logo and has paid a proper stamp duty. Moreover, the official letter will include the records and documents, type of tax and financial year to be audited, and the proposed time for the first meeting.
- (b) Generally, the time of the first meeting must be within 10 days after sending the official letter for audit. The taxpayer must reply the available time of the first meeting immediately. If the proposed time is not convenient for them, they must provide the reason and proper explanation and must inform their convenient time for the meeting.

5. The First meeting

In the first meeting, tax officer will discuss with the taxpayer on how the audit activities will be carried out and on how necessary arrangements will be made. The company must submit an appointment letter of the agent who will facilitate the tax affairs

on behalf of the company. Besides, all the participants must be signed in a record of attendance. Tax officer will ask the taxpayer a number of questions relating to the records, accounting system, return preparation procedure and business activities. After the meeting, all the statements may be recorded in the file.

6. Audit Period

- (a) There is no set time for an audit. However, the following elements will decide the period of audit:
- size of the taxpayer's business and its transaction (Sales/ Purchase/ Production/ Services)
 - whether the records are prepared according to the accounting standards;
 - cooperation with IRD;
- (b) Tax officer will provide an estimated timeframe at the outset of the audit. If the tax officer needs to know more information, the taxpayer will be discussed for extended time.

7. The Role of Tax Officer

The auditor (tax officer) will make an effort in the following:

- To be prompt, courteous and professional;
- To take right actions as the results of audit;
- To have due respect to the taxpayer and keep confidentiality of the taxpayer's information except for the purpose of Union Level affairs;
- To explain the interpretation of the tax laws;
- Not to accept any gift and money from the taxpayers. If the taxpayers would like to acknowledge the work done by the officer, they are welcome to send the officer a letter of acknowledgement.

8. The role of the taxpayer

The taxpayer must give the information and documents in a timely manner and they must allow tax officer to **enter** into their office, building, premises, industry and workplace.

- The taxpayer does not need to cease their businesses while auditing. On the other hand, the tax officer will try best to audit as fast as possible in accord with the cooperative effort of the taxpayer.
- The taxpayer has the right to appoint the official agent to facilitate the tax affairs with the tax office.
- Under Self-Assessment System, the taxpayer cannot make the appeal or revision regarding with the tax amount they assessed by themselves.
- However, IRD through an audit process makes an adjustment to the taxpayer's assessment, the taxpayer has the right to make an appeal within the prescribed period. The taxpayer may apply to the Revision Committee for amended assessment if the prescribed period is over.

9. During the process of audit

- (a) While auditing, a written request letter makes a record of communication between the tax officer and the taxpayer, and the taxpayer can ask the tax officer to make explanation on the unclear question to avoid misunderstanding.
- (b) While auditing, if information and documents are required, IRD will ask with prescribed form. The taxpayer needs to agree the date to resubmit the requested form. If the documents and forms are not provided during the set period of time, the final assessment will be made depending on the available documents and information.

10. Obstructing the Tax Officer

- (a) During the process of audit, the tax officer must not be aggravated by the following means;
 - Refusing to enter the office, premises, industry or workplace of the taxpayer in the agreeable time or the time when the audit team asked for;
 - Destroying the important information relevant to the business,
 - Willfully falsifying or failing to provide the detailed information;
 - Creating deliberate delays to frustrate tax officers.

- (b) If the taxpayer refuses to allow the audit team to enter the office, premises, industry or workplace before the agreeable time or the time that the audit team asked for, the tax officer will be carry on according to the Income Tax Law, Section 44: Power to enter and inspect buildings and Section 45: Power to search and seize books of accounts or documents.

11. Reviewing the result of auditing and problem solving

- (a) After an audit process, a final meeting will be conducted with the taxpayer. In this meeting, IRD will discuss on audit issues and gives the audit report to the taxpayer. If the taxpayer submits more documents in this meeting, the audit team will review the audit report if necessary.
- (b) If the taxpayer is agreeable to the final audit report, he or she has to sign and return the report. If the information on the final report is not agreeable, he or she needs to submit each and every explanation why it is not agreeable. Since the facts on the audit report are not an assessment notice, taxpayer will be informed that he or she can not apply for the appeal process.

Internal Revenue Department

Questions and Answers about Auditing

1. How does IRD enforce the taxpayers if they do under-reporting?

Taxpayers have the obligation to disclose their total income and can claim the actual expenditure. Concealing their actual sale proceeds or income is regarded as a fraud. According to the income tax law, if a person fully discloses within the stipulated time, he shall pay, in addition to the tax payable on his total income, a penalty equal to 100 per cent of the amount of tax on account of the concealment.

If the taxpayer fails to disclose within the stipulated time or discloses an amount which is less than the income concealed, he shall pay a penalty equivalent to the amount of additional tax payable on account of concealment in addition to the tax payable on his total income and shall also be prosecuted. If the court finds him guilty, he shall be punishable with imprisonment for a term which may extend from three to ten years.

According to the commercial tax law, if the taxpayer discloses in full the particulars within the stipulated time, he shall pay a penalty equivalent to the amount of tax payable on account of evasion or further payment on account of concealment in addition to the tax payable.

If a taxpayer fails to disclose within the stipulated time or discloses an amount which is less than the proceed of sale or receipt from service, he shall pay a penalty equivalent to the amount of tax payable on account of evasion or further payment on account of concealment and shall also be prosecuted. He shall be punished, on conviction, with imprisonment for a term not exceeding one year or a fine not exceeding one hundred thousand kyats or with both.

2. How does IRD continue to act on if expenditure is found invalid?

Taxpayers have to report that expenditures are actually used with the evidences. They must keep in hand the bills for general expenditure and the evidences for payment. The expenditure such as payments and bills that cannot be reported with the evidences is not allowed as expenditure for income.

Both taxpayers and the other third persons shall be acted on according to existing laws if they perform these occurrences like creating the adjusted bills for expenditure when original bills cannot be reported and claiming to report only incorrect evidences in order to conceal their incorrect facts when the third persons (eg. suppliers and customers) are demanded to pay their information by the tax office.

3. How to keep the records?

Although there are many taxpayers who keep the records correctly, there are also other taxpayers who are weak in records keeping. Our auditing team will focus on both income and expenditure. If the auditors find that taxpayers do not keep relevant accounts of income when that income is audited, the tax office will calculate taxpayer's income with recognized methods based on the available information. If the amount calculated by the tax office is more than the amount furnished in tax return, tax chargeable will be calculated according to the amount calculated by the tax office.

The taxpayers who fail proper record keeping will be effectively forbidden not to avoid the actual tax payable.

4. How does IRD proceed to act on the computation of the value of taxpayer's expenditure, inventories and debit or assets?

The tax office will closely audit whether the computation of the value of taxpayer's expenditure, inventories and debit or assets are correct or not. If the taxpayer has a profit from his computation, the computation will be replaced with the recomputed one by the relevant the law and procedures.

5. How does IRD react on if further business activities that are not shown in the taxpayers' record and documents are found?

The business activities which are not shown in some taxpayers' records and documents may be found out. For example, when a rental fee is paid by exchange of goods instead of paying money, taxpayers must furnish the price that specifies in the exchange of goods in tax return because that price can be regarded as assessable income.

6. How to take action if taxpayers fail to show the income in the relevant accounts?

Sometimes, the income is wrongly entered as suspended income and do not show in the profit and loss account of relevant fiscal year. For example; an income received under long-term construction contract is failed to enter as the income until the end of contract period. Actually, the profit must be computed based on the annual income received from relevant business using the method of computing on the percentage of completion of business.

In the cases of long-term renting, if all the rental fees are fully paid in an income year but the fees are entered to the record yearly, the tax office will assess in the same year when the rental fees are fully paid.

7. How will IRD proceed when taxpayer is wrongly claiming on the depreciation allowance?

The taxpayers may wrongly claim the depreciation allowances based on the incorrect calculations. IRD will not allow to deduct the following cases-the calculation is based on the wrong depreciation rates; depreciation allowance for revalued assets is claimed based on the calculations which use the revalued price; depreciation allowances are being granted for the assets which are not in hand; and the expenditures in terms of depreciation or amortization before the business is not started.

The taxpayers must compute depreciation allowance on the original price of the assets and must keep those assets in hand (or must actually operate a business).

8. How will IRD proceed to request the information?

Generally, the tax office will send a request letter to the taxpayers asking to provide the relevant documents and explanations during the audit. The deadline for the documents will be set up in that request letter. Auditing may take longer time than required when some companies delay to provide the documents or do not have complete documents.

If it is impossible to reply during the specified time, taxpayers must report to the audit team for extension. If the taxpayers are not clear about the requested documents and explanations, they can query to the audit team.

If delays or concealment of information continue or reported evidences are not appropriate, the tax office will assume these activities as disturbance and will assess based on the available documents and information that are received from third parties, by exercising its judicial powers conferred by the relevant law.

9. What advantages will the taxpayers get by joining stakeholder meetings?

The tax offices hold regular stakeholder meetings and encourage the taxpayers and tax experts to join those meetings. The aim of holding those meetings is to share the tax knowledge to the taxpayers and their tax agents and to support the needs of the taxpayers.

It is very important that taxpayers make suitable person attend those stakeholder meetings. If so, he/she can share the main facts that discuss in the meeting to the relevant admin section and accountants of that company.

10. How auditing is convenient by cooperation of tax auditors and taxpayers in auditing?

The cooperation by the taxpayers and their tax agents is very important during auditing. Taxpayers and their tax agents need to assist tax auditors by providing requested documents in time, keeping the records properly, clearly explaining the business process and current accounting system, and supporting the necessary aids to facilitate in auditing.

But, there are other some taxpayers who do not cooperate, for example, the failure to provide requested documents, submitting incomplete or ambiguous explanations and denying to provide the requested documents by excusing as confidentiality. IRD will not allow these failures.

Lack of cooperation by the taxpayers can delay not only the tax auditing process but also the regular business activities. So, taxpayers need to cooperate in the relevant auditing activities to be more effective. The duty (of audit) of the tax office is not based on the amount of tax but to support the development of the country and citizens by collecting the correct amount of tax.

For more details, you can contact the respective township revenue offices, taxpayer service office (Yangon) (Ph- 01-378372) and taxpayer service office (Mandalay) (Ph- 02-30192). The answers of frequently asked questions (FAQs) will be continuously informed.