



Technical Report

One Time Transaction Tax (ONET³) System

by Romulo Miral, Jr., Ph.D.

Prepared for

**Bureau of Internal Revenue
Republic of the Philippines**

Submitted for review to

USAID/Philippines OEDG

August 12, 2007



**Economic Modernization through Efficient Reforms and Governance Enhancement (EMERGE)
Unit 2003, 139 Corporate Center, 139 Valero St., Salcedo Village, Makati City 1227, Philippines
Tel. No. (632) 752 0881 Fax No. (632) 752 2225**

Preface

This report is the result of technical assistance provided by the Economic Modernization through Efficient Reforms and Governance Enhancement (EMERGE) Activity, under contract with the CARANA Corporation, Nathan Associates Inc. and The Peoples Group (TRG) to the United States Agency for International Development, Manila, Philippines (USAID/Philippines) (Contract No. AFP-I-00-03-00020-00 Delivery Order 800). The EMERGE Activity is intended to contribute towards the Government of the Republic of the Philippines (GRP) Medium Term Philippine Development Plan (MTPDP) and USAID/Philippines' Strategic Objective 2, "Investment Climate Less Constrained by Corruption and Poor Governance." The purpose of the activity is to provide technical assistance to support economic policy reforms that will cause sustainable economic growth and enhance the competitiveness of the Philippine economy by augmenting the efforts of Philippine pro-reform partners and stakeholders.

By letter dated November 8, 2004, Commissioner of Internal Revenue Guillermo M. Parayno requested EMERGE assistance to help the Bureau develop, install and pilot test a computerized, web-based system to enhance one time transaction tax (ONET³) processing. ONET³ covers the following transactions: (1) capital gains tax (CGT) on sale of real properties considered capital assets; (2) expanded withholding tax on sale of real properties considered ordinary assets; (3) documentary stamp tax; (4) CGT on transfer of stocks not traded in the stock exchanges; (5) donor's tax; and (6) estate tax. Specifically, the TA was (a) to develop a web-based application for the first three types of transactions that will assist taxpayers accurately self-assess their tax liabilities independent of tax officials and file the requisite forms with the BIR without presenting themselves at the BIR offices; (b) to automate the payment of taxes on ONET³ and the issuance of the taxpayer's copy of the TCL and CAR with minimal intervention by agency employees; (c) to provide a high level of security on the processes as protection from internal and external manipulations in the verification/validation/authentication of the TCLs and CARs, and a linkage with the business process at the LRAs to enhance system controls for the automated system; (d) to generate data and information for assessing taxpayer compliance with the payment of taxes on ONET³, and the verification/validation of work units spent by the LRA; and (e) to define a strategy for implementing the improved system nationwide and also, in one RDO and at the LRA – Head Office, Quezon City.

Through a competitive selection process assisted by the Foundation for Revenue Enhancement (FRReE), EMERGE issued a purchase order contract to eKonek Pilipinas, Inc., to undertake the task. This report of their activities was prepared by Romulo Miral, Jr., Ph.D., the EMERGE Team Leader for Fiscal Sustainability who was responsible for monitoring the activity.

The views expressed and opinions contained in this publication are those of the author and are not necessarily those of USAID, the GRP, EMERGE or its parent organizations.

ONE TIME TRANSACTION TAX (ONET³) SYSTEM

By Romulo Miral, Jr., Ph.D., Fiscal Sustainability Team Leader

EMERGE Project

August 12, 2007

Background

For 18 months beginning November 2001, a Bureau of Internal Revenue (BIR)-convened Process Reengineering Team (PRT) reviewed the tax administration procedures of the One-Time Transaction Taxes (ONET³) with technical assistance from AGILE, a USAID project.

The recommendations of the PRT focused on the corruption in ONET³ and were implemented in 2003. These included

- (a) simplification of documentary requirements and procedures for the processing, verification/audit, and review of tax returns on ONET³,
- (b) timely issuance of Certificate Authorizing Registration (CAR) related to the sale/transfer of real properties within 5 days from several weeks or months, and
- (c) establishment of an ONET³ Team in every Revenue District Office (RDO), which serves as a one-stop-shop for ONET³. It provides for frontline services and attends to all needs of the ONETT taxpayers, from tax assistance to issuance of tax clearance.

Despite the improvements, the ONET³ system remained vulnerable to revenue losses and leakages and puts at risk the Bureau's short to medium term revenue collection. BIR has pinpointed the following sources of leakage:

- (a) Harassment of ONET³ Taxpayers with legitimate transactions. ONET³ taxpayers are required to have their tax liability computed by BIR personnel instead of them accurately self-assessing their tax liabilities independent of tax officials. This system has exacted corruption; ONET³ taxpayers are vulnerable to harassment by BIR personnel or collusion with BIR officials for their tax liabilities to be lowered, particularly when there is confusion in determining zonal valuation.
- (b) Absence of a reliable validation/verification system on Tax Clearance (TCL) and location of the property and Certificate Authorizing Registration (CAR). BIR has assigned personnel to the Land Regulatory Authority-Register of Deeds (LRA-RD) to verify TCL and CAR documents issued by the Bureau, which the ONET³ taxpayer submits to LRA-RD for the issuance of Transfer of Certificate of Title (TCT). Verification of the TCLs and CARs is done through the BIR-LRA Verification System (BLTVS). BIR, however, has suspended the

implementation of the BLTVS because the system has failed to address the proliferation of fake TCLs and CARs and to detect the illegal transfer of property titles. BIR also has noted the corruption of BIR personnel assigned in LRA-RD.

(c) Delays in the issuance of CAR.

Thus BIR has since continued to undertake further improvements in the ONET³ system and designated the Foundation for Revenue Enhancement (FREE) as its partner institution. E-Konek is specifically tasked with process streamlining and the technological applications. Technical assistance is being provided by USAID through the Economic Modernization through Efficient Reforms and Governance Enhancement (EMERGE) Project.

Objectives

In general, the ONET³ System Project aims to improve tax collection on ONET³ by introducing enabling technologies that secure system integrity, thereby reducing or eliminating vulnerability to revenue losses and building a reliable database for pre- and post-audit purposes.

The specific objectives and corresponding targeted benefits of ONET³ are:

- a. *To develop a web-based application that will assist taxpayers in accurately and independently assessing their tax liabilities.* The process that a taxpayer goes through is greatly simplified.
- b. *To automate the payment of taxes on ONET³ and the issuance of TCL and CAR.* A significant way of facilitating tax payment for the public is to automate the process. An automated process also makes pre- and post-audit of tax payments easier.
- c. *To provide high-level security from internal and external manipulation of TCL and CAR processes.*
- d. *To provide a linkage between taxation and the business processes of LRA.* Specifically, tax mapping for error detection purposes is more easily undertaken and real properties on which taxes have not been paid are more easily identified.
- e. *To generate data for assessing taxpayer compliance and verification/ validation of LRA work units.* Tax mapping and identification of real properties on which taxes have not been paid are again facilitated. Generation of revenues from Tax Title Record queries is also made possible.
- f. *To define a strategy for implementing the improved system in one pilot RDO and at the LRA Head Office.*

Scope of Technical Assistance

The technical assistance focused on the development of a system application and the provision of hardware and network requirements for the enhanced ONET³ transaction/processing for a pilot site in one RDO and LRA-RD.

ONET³ covers the following transactions: (1) capital gains tax (CGT) on sale of real properties considered as capital assets; (2) CGT on transfer of stocks not traded in the stock exchanges; (3) expanded withholding tax (EWT) on sale of real properties considered as ordinary assets; (4) donor's tax; (5) estate tax; and (6) documentary stamp tax.

However, the scope of technical assistance is limited to transactions for Capital Gains Tax, Expanded Withholding Tax and Documentary Stamp Tax relating to the sale of real properties. It does not cover transfer of stocks and non-sale transactions like Donation, Estate Tax, Property Dividends, and Property Shares.

It is noted here that EMERGE invokes clause (g)(2) and (3) of FAR 52.227-14-General for the computer software that will result from the implementation of this TOR which restricts US government rights, through the EMERGE contractor, over the product. The restriction is necessary as the computer software will be lodged in the Philippines Bureau of Internal Revenue, and as such will have attached to it strictly confidential information of Philippine taxpayers. EMERGE will ensure that the FAR clause will be complied with.

Methodologies and Activities

The development of the ONET³ system application was an iterative process consisting of several phases, namely, requirements definition, system build and construction, acceptance testing, and deployment.

Requirements definition

At this stage of the technical assistance, eKonek worked closely with the BIR task force in identifying the requirements of the ONET³ system. This involved document-based research of existing rules and regulations on ONET³, walkthrough of the current manual procedure, interviews with key BIR personnel, and focus group discussions on issues that need verification and validation from users.

Among the key activities and outputs completed during this stage were as follows:

Key Activities	Action Items/Output
Review of existing process	High level documentation of existing processes Listing of issues relating to existing business process
Identification of existing computerized applications that may be interfaced with the proposed system	Listing of computerized applications related to ONET ³ Identification of interfacing strategies for those applications that are identified to be integrated with the proposed system
Identification of solutions to address the requirements as they relate to existing processes in BIR.	Listing of requirements Listing of solution
Preparation of the Functional Analysis Report	Documentation of the functional requirements and solutions for sign-off

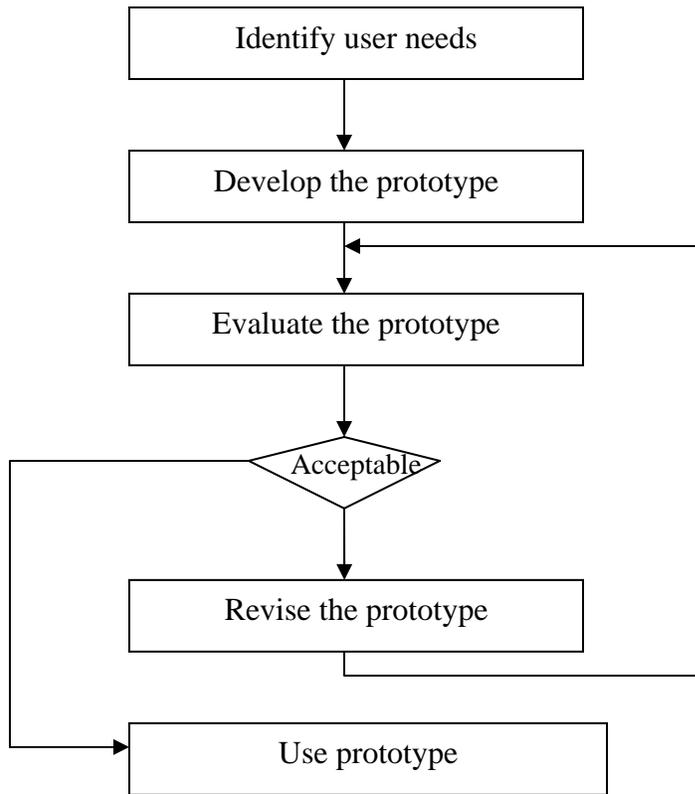
System build and construction

Upon completion of the functional analysis report, eKonek proceeded with the development of the functional specifications and prototype of the ONET³ system application. The functional specification lists down the business rules that will be applied in the proposed system. Business rules relate to how the business is conducted; alternatively, they are rules regarding business transactions and processes that will be enforced throughout the application.

The functional specification served as the basis for the development of prototype or application models. Three versions of the application model were presented to BIR, namely:

Version	Description
1 st Version	A prototype containing only the shell of the needed modules and functionalities
2 nd Version	A prototype containing the business rules specified in the functional specifications document and a demonstration of how data flow from one module to another. This provides the users with an understanding of how the system, in its completed form, will function.
3 rd Version	Full version with all the corrected features and functionalities of the 2 nd version

The development of the prototype is an iterative process, as illustrated by the diagram below:



Acceptance Testing

The acceptance testing consisted of two major types: (1) quality assurance testing, and (2) user acceptance testing. The quality assurance testing was performed mainly by the BIR-Quality Assurance Division. It consisted of unit testing each of the four major modules of the ONET³ application, followed by an integration testing of all the modules together. The user acceptance testing, on the other hand, involved a live walkthrough of the application, which had already been deployed in the staging or testing server of the BIR.

The system build, acceptance testing, and development of the final ONET³ application prototype were repeatedly delayed. The ONET³ application prototype was revised several times to accommodate the comments and suggestions given by the various stakeholders. Some of these required policy changes that took some time to resolve were the one property-one Certificate Authorizing Registration policy, use of ordinary paper with security mark and barcode in lieu pre-printed forms, removal of the automated computation of penalties, and some changes in the business rules. There had also been delays in the testing process due to the heavy workload of Information Systems Group, which was attending to several systems development and enhancement projects in the BIR such as the e-ITS and e-FPS. There were also personnel changes in EKP, which slowed down the pace of the project.

Deployment

A Product Acceptance Certificate was given to the ONET³ application and an Operations Memorandum was issued by the Commissioner of Internal Revenue for the soft-launch of the application in RDO 39 (Quezon City). This stage involved training of all end users at the RDO and porting of the application from test mode to production mode (or actual use).

The enhanced ONET³ System

The enhanced ONET³ System has the following features:

1. Web-based filing system and processing of ONET³ transactions with reduced human intervention and face-to-face contact with taxpayer
2. Automated generation of applicable tax forms and computation of tax due based on declared information, taking into account the correct zonal valuation in the BIR's database
3. Data capture of transfer of real properties for build-up of a reliable ONET³ database for pre and post audit purposes

4. Automated generation/issuance of CAR with a system generated and bar coded number once within five (5) days from submission of complete documentary requirements and payment of the correct tax
5. Linkage of business process with LRA-RD so as to enhance control on the transfer of property

The ONET³ application system consists of four modules:

1. Taxpayer module

This module consists of the functionalities that could be performed by a Taxpayer/Filer to enable him to self-assess his taxes due. He is required to have the following documents on hand so that filing will be fast and easy.

- a) Latest Tax Declaration
- b) Notarized Deed of Sale
- c) TCT/OCT/CCT

The module requires the taxpayer to truthfully fill up the location of the property, which is the subject of sale, so that the system can automatically compute the correct amounts for the capital gains tax and expanded withholding tax. The forms generated by the system could then be printed by the taxpayer for filing and payment.

2. Authorized Agent Bank Module

This module states the functionalities that can be performed by an Authorized Agent Bank (AAB) registered for the access of ONET³. Users of this system are required to register with BIR to be granted access. AAB User will update the ONET³ with the bank validation number for the paid tax declaration (whether 1706/1606/2000). At the moment, however, AABs are not yet ready to assume this functionality. Thus, this module or functionality will momentarily reside with the BIR-RDO.

3. BIR/ONET³ Member Module

This module states the functionalities that can be performed by an ONET³ Member/Reviewer at the BIR-RDO and by the Administrators of the System. They can make use of this application for:

- a) Reviewing the status of the tax return/application
- b) Amending the incorrect filing of the taxpayer
- c) Assisting non-IT enabled taxpayer by creating a new tax return for them.
- d) Checking the accomplishments of each RDO
- e) Print the Certificate Authorizing Registration (CAR)

4. Land Registration Authority Module

This module covers the functionalities that can be performed by the Land Registration Authority-Register of Deeds (LRA-RD) who are registered for access to ONET3. Users of this system are required to register with BIR to be granted access. LRA-RD users will update ONET³ with the new TCT Number assigned to the Property and the Date when the transfer was made. The functionalities can also be performed by LRA even if the web application is not available. There is an offline program that can be used to check the authenticity of the submitted CAR by the Taxpayer to LRA. This module also minimizes the encoding task of an LRA employee because it is BARCODE driven. This module should be developed using VISUAL BASIC and the Database Engine should be in MS ACCESS format.

eKonek has submitted the systems codes of all modules to BIR. eKonek has also granted the BIR a one-year warranty support for the ONET3 application.