



*Technical Report*

***Integrative Report: #1 of 6 reports for an***

## **Integrated System of Motor Vehicle Registration, Land Public Transport Franchising, Insurance, and Taxation**

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**Prepared for**

**Land Transport Office (LTO)**

**Land Transportation Franchising & Regulatory Board**

**Bureau of Internal Revenue, and**

**Insurance Commission**

**Republic of the Philippines**

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# 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-00-00-03-00020-00 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.

EMERGE received an unsolicited grant proposal from the Asian Institute of Management (AIM) Ramon V. del Rosario, Sr., (RVR) Center for Corporate Responsibility dated August 1, 2005, entitled "Improved Coordination among Regulatory and Tax Administration Agencies: Towards Improved Tax Collection." As the design of the activity was refined, it was endorsed on January 20, 2006, by the heads of four counterpart agencies: Chairperson Maria Elena Bautista, Land Transportation Franchising and Regulatory Board (LTFRB), Commissioner Jose Mario C. Buñag, Bureau of Internal Revenue (BIR), Commissioner Evangeline Escobillo, Insurance Commission (IC), and Assistant Secretary and Chief, Anneli Lontoc, Land Transport Office (LTO). The counterparts called for technical assistance through the proposed grant to help them develop an **"Integrated System of Motor Vehicle Registration, Land Public Transport Franchising, Insurance and Taxation"** program, in order to 1) reduce transaction costs and business risks in the registration and insurance of motor vehicles, and in franchising and insurance of land transportation, and 2) improve the collection of taxes and fees from land transportation franchising, motor vehicle registration and insurance through third party information.

The specific objectives of the activity were:

1. To review and analyze the business processes and their accompanying organizational structures and level of ICT support, which are pertinent to motor vehicle registration, land public transport franchising, and transport sector taxation;
2. To identify possible areas of interface and harmonization of requirements in the processes undertaken by the LTO, LTFRB, BIR, and IC, which include but are not limited to data generation, processing, and analysis;
3. To design an improved and integrated system for motor vehicle registration, land public transport franchising, and transport sector taxation; and
4. To design a change plan for the introduction and adoption of the integrated system in objective 3.

The EMERGE grant was approved by USAID on March 20, 2006. The AIM team consisted of Felipe Alfonso & Francisco Roman, Jr., Project Leaders, John Paul Vergara, Team Leader 1, Dennis Beng Hui, Team Leader 2, Romulo Miral, Jr., Task Manager, and others. Upon completion of its work the AIM/RVR Center submitted the following reports detailing the results of their work with the counterpart agencies:

I. **“Integrative Report,”** describing the project background and the major findings and recommendations of the study. Also included as appendices are:

- Draft MOA for Linkage on Compulsory Third Party Liability Insurance Reporting, among IC, LTO and BIR
- Draft MOA for Linkage on Colorum Vehicle Reporting, between LTO and LTFRB
- Draft MOA for Linkage on Tax-Related Information on Transport Operators, between LTFRB and BIR
- LTO Office Order No. 151-2006 dated May 17,2006 on the Creation of Study Group to Update LTO Operations Manual
- LTO Memorandum dated October 30,2006 on Monitoring and Reporting of Transaction Inefficiencies

II. **“Motor Vehicle Registration Report,”** containing the motor vehicle registration process documentation, diagnostics of the process, and proposed systems and process improvements;

III. **“Draft of Updated Land Transportation Office (LTO) Operations Manual,”** which was prepared by an LTO study group with the facilitation and guidance of the AIM project team;

IV. **“Land Transport Franchising Report,”** containing the land transportation franchising process documentation, diagnostics of the process, and proposed systems and process improvements;

V. **“Draft Land Transportation Franchising and Regulatory Board (LTFRB) Guidebook,”** which is a step-by-step guide in operationalizing the proposed process improvements in the Application/Extension of Validity of Franchise and Confirmation of Franchise, which represent the bulk of the transactions at the LTFRB; and

VI. **“Risk Assessment of Taxation in Motor Vehicle Registration and Land Transport Franchising,”** which looks at the problems and proposed systems improvements in motor vehicle registration and transport franchising within a tax revenue risk assessment framework.

The views expressed and opinions contained in these reports are those of the authors and are not necessarily those of USAID, the GRP, EMERGE or its parent organizations.

**INTEGRATED SYSTEM OF MOTOR VEHICLE REGISTRATION,  
LAND TRANSPORT FRANCHISING,  
TAXATION, AND INSURANCE**

**INTEGRATIVE REPORT**

**HILLS PROGRAM ON GOVERNANCE-  
RVR CENTER FOR CORPORATE RESPONSIBILITY  
ASIAN INSTITUTE OF MANAGEMENT**

**MARCH 2007**

**INTEGRATED SYSTEM OF MOTOR VEHICLE REGISTRATION,  
LAND TRANSPORT FRANCHISING,  
TAXATION, AND INSURANCE**

**ABSTRACT**

This AIM-implemented technical assistance project of USAID-EMERGE was undertaken on the premise that revenue generation is improved by internal efficiency in line agencies and information sharing among regulatory and revenue collection agencies. Two frontline services in the transport sector were studied, namely, motor vehicle registration and land transport franchising, including their sub-processes relating to insurance and taxation. Interwoven in these processes are two persistent conditions that impede correct taxation in the transport sector. These are fraudulent compulsory third party liability (CTPL) insurance coverage and the existence of *colorum* vehicles or vehicles registered for conveyance but do not have valid franchises.

Systems studies were conducted at the Land Transportation Office (LTO) and the Land Transportation Franchising and Regulatory Board (LTFRB). Linkages among these agencies, the Insurance Commission (IC), and the Bureau of Internal Revenue (BIR), particularly those pertinent to the use of third party information, were likewise studied. Proposals were drawn to streamline intra-agency business processes and improve service delivery. These will also prepare office mechanisms for, and improve the quality of information inputted into, the inter-agency linkages designed to minimize the incidence of fraudulent compulsory third party liability (CTPL) insurance coverage and *colorum* vehicles. Addressing these problems will ultimately improve tax collection in motor vehicle registration and land transport franchising.

The LTO operations manual for motor vehicle registration was updated by an LTO study group with the guidance of the project team. Recommendations for a reengineered system were also prepared. Notably, an office order has been issued to implement the team's proposed processes for transaction time monitoring and reporting and classifying systems issues based on frequency and urgency. The team also prepared a similar guidebook for the use of LTFRB personnel and proposed improvements to the franchising procedures.

The proposed inter-agency linkage that will facilitate timely information sharing and verification is hinged on three points: (1) an IC-LTO linkage for compliance monitoring of CTPL insurance coverage, (2) an LTFRB-LTO linkage for franchise verification and detection of *colorum* vehicles, and (3) an LTFRB-BIR linkage for proper tax assessment of public transport operators.

In November 2006, shortly after the management of the four agencies agreed on the draft memoranda of agreement to effect the above linkages, then LTO Assistant Secretary Anneli Lontoc and LTFRB Chairperson Maria Elena Bautista were designated Department of Transportation and Communication Undersecretaries. They were replaced by Retired General Reynaldo Berroya and Retired General Thompson Lantion, respectively. The signing of the MOAs were postponed as the new agency heads requested for more time to study them. To date, only BIR Commissioner Jose Mario Buñag has affixed his signature on the draft MOAs.

An offshoot of this technical assistance project is the development of a compulsory insurance database clearing system to be solely owned and maintained by IC. The undertaking is also supported by USAID-EMERGE.

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## 1 BASIC PROJECT INFORMATION

### 1.1 Project Background and Rationale

*Governance and revenue generation.* Although the Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC) have the primary mandate for revenue generation, other government agencies should contribute to raising revenues for the government. For example, agencies that regulate industries, businesses, and practice of professions do not only collect fees; they also possess information useful in assessing, collecting, and auditing tax payments. By strengthening these agencies' internal efficiency and external linkages with each other regulatory agencies and with tax administration authorities, improved governance and tax collection could be achieved and sustained.

*Zeroing in on the transport sector.* With this premise, two frontline services in the transport sector were studied, namely, motor vehicle registration and land transport franchising, including their sub-processes relating to insurance and taxation. These services thread through the Land Transportation Office (LTO), Land Transportation Franchising and Regulatory Board (LTFRB), BIR, and Insurance Commission (IC). Interwoven in these processes are persistent conditions that impede correct taxation in the transport sector. These are questionable compulsory third party liability (CTPL) insurance coverage, the existence of *colorum* vehicles or vehicles used for public conveyance but do not have valid franchises, and the lack of means for correctly assessing income from public transport operations.

Reports from IC show a big disparity in the number of motor vehicles registered with LTO and the reported number of Certificates of Cover (COCs) for the compulsory third party liability (CTPL) insurance. In 2004, for example, 4.76 million vehicles were registered by LTO but only 1.67 million COCs were reported by insurance companies to IC. This condition has resulted in non-payment of claims to the insuring public, unfair competition faced by legitimate insurance companies, and tax losses to the government. For 2004, the loss in documentary stamp tax proceeds alone was estimated at Php 270 million.

*Colorum* vehicles, on the other hand, pose danger to the riding public, create unfair competition for legitimate transport operators, and cause non-payment of proper taxes. In 2004, 329,667 PUVs were registered with LTO but LTFRB records showed that only 255,015 of these had been issued franchise confirmations. These indicate that *colorum* vehicles number around 74,652. The corresponding revenue losses are estimated at Php 8.58 million in confirmation fees and Php 17.9 million in common carriers tax.

## **1.2 Project Objectives**

This project aimed to propose measures to reduce transaction costs and business risks and improve the collection of taxes and fees pertinent to in motor vehicle registration, land transport franchising, and the acquisition of CTPL insurance cover.

The specific objectives of the project were:

- 1.2.1 to review and analyze the business processes and their accompanying organizational structures, which are pertinent to motor vehicle registration, land transport franchising, and transport sector taxation;
- 1.2.2 to identify possible areas of interface in the processes undertaken by LTO, LTFRB, BIR, and IC;
- 1.2.3 to design improved internal processes for motor vehicle registration and land transport franchising; and
- 1.2.4 to design an improved and integrated system for the motor vehicle registration and land transport franchising processes and the sub-processes of insurance and taxation.

## **1.3 Methods**

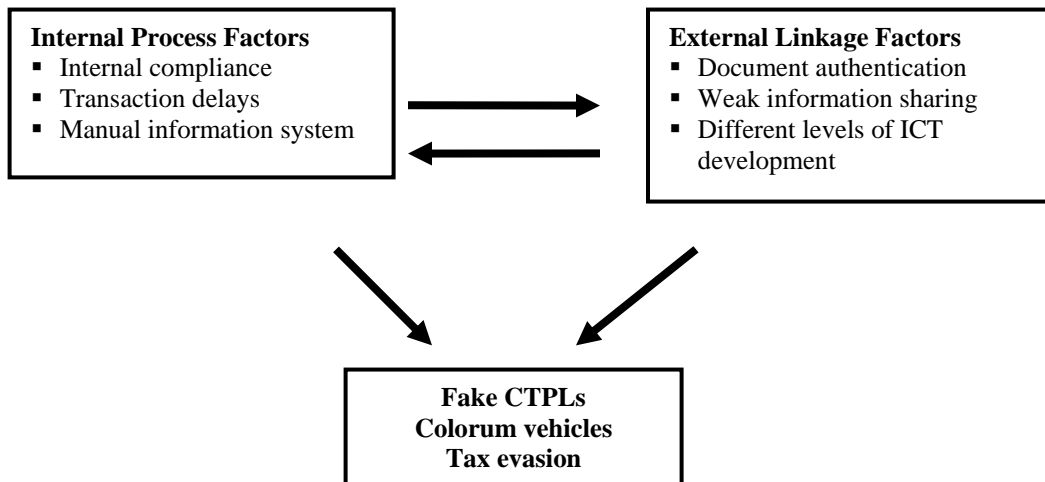
The project was divided into two distinct and parallel tracks, namely, motor vehicle registration and land transport franchising. Each track consisted of the following phases: (1) diagnostics, (2) systems design, (3) preparations for implementation, and (4) final documentation. The diagnostics and systems design phases employed time and motion studies, process studies, and focus group discussions. A third track on tax administration undertook a supplementary risk assessment of the taxation issues. Project management directed and assured that track activities were conducted in a parallel manner and directed work on the external linkages.



## 2. INTERNAL EFFICIENCY AND EXTERNAL LINKAGES

Inadequate public service and tax leakages resulting from fraudulent COCs for CTPL insurance and the existence of *colorum* vehicles could be attributed to weaknesses in the internal processes in the concerned agencies and in their external linkages for compliance monitoring.

This finding is illustrated below:



### **3. MOTOR VEHICLE REGISTRATION**

#### **3.1 Process Issues**

The diagnostic phase identified issues that need to be addressed in motor vehicle registration. These are:

##### **3.1.1 Internal compliance**

- a. The operations manual, last revised in 1997, needed updating.
- b. The implementation of prescribed processes across district offices is not uniform, suggesting significant internal discretion.

##### **3.1.2 Transaction time delay**

- a. Registration transaction times differ significantly from under one hour to more than three hours across district offices.
- b. The establishment of source documents is tedious process and aggravates transaction delays.

##### **3.1.3 Authentication of documentary requirements/ source documents**

- a. Authentication processes for some documentary requirements are inadequate.
- b. Initiatives to establish electronic linkages with other agencies for the purpose of document authentication remain uncompleted.

#### **3.2 Reengineering of Internal Processes**

Internal efficiency will promote better use of agency resources and delivery of services in motor vehicle registration. The following measures were undertaken to reengineer internal processes:

##### **3.2.1 Updating of operations manual**

The track team provided directions to an LTO study group designated by management to update the operations manual on motor vehicle registration. It was necessary for an in-house group to draft the operations manual to assure committed ownership of the document and its prescribed processes.

The improvements to the operations manual include

- Updating of the legal bases (circulars and other issuances) that accompany motor vehicle registration processes.
- Appointing distinct sections for statements of policies and articulation of procedures. Processes involving organization (versus individual) registrants were also added. Organization registrants are manufacturers, assemblers, importers, and dealers (MAIDs).
- Establishment of more clear-cut categories of transactions. This involved clarifying transactions previously classified as “special.”
- Consistent presentation of flowcharts and documentary requirements across transactions processes and types.
- A specification of required technological improvements.

### **3.2.2 Study of causes of transactions delays**

In collaboration with the LTO Project Monitoring Office and Management Information Division and with the aid of time and motion studies, the reasons for transaction delays were identified and categorized.

The two resulting categories are:

- Problems with the information system, namely, system errors, upload problems, and system downtime and slowdown.
- Procedural delays. These include failure of personnel to accurately comply with specific steps, e.g., encoding of stickers and plate release, and backend scanning.

It was established that a registration transaction takes less than an hour to complete, sans system problems. Thus, outside of the updated operations manual, recommendations on process reengineering focused on measures that address information system problems rather than streamlining the overall process.

The recommendations on information system improvements are:

- Installing a process of reporting and subsequently classifying system issues based on frequency and urgency.
- Installing a transaction time monitoring system. This is to be installed in the district offices and set up for all the transaction types. The system will yield information that will allow the central office to distinguish isolated from persistent cases and to respond accordingly.

### **3.3 Establishing an LTO-IC Linkage for Compliance Monitoring of the CTPL Insurance Coverage**

#### **3.3.1 Current process of checking CTPL insurance coverage**

The current process of checking compliance with the CTPL insurance coverage requirement is outlined below:

- a. After a CTPL insurance policy has been acquired and upon purchase of the certificate of cover, the information is encoded into a central database called the Certificate of Cover Authentication System (COCAS). COCAS is owned by the Philippine Insurers and Re-insurers Association (PIRA) (formerly known as the Insurance Surety Association of the Philippines (ISAP)), an association of non-life insurance companies.
- b. When a vehicle undergoes the registration process, its CTPL COC is verified. This is done by a third party, D'Tech Management, Inc., within the LTO premises and through Internet or SMS connection to COCAS. After verification, a sticker is affixed to the COC submitted.
- c. The LTO personnel evaluating the application for registration checks the COCAS sticker in number 2. He then makes a decision on whether or not the vehicle registration could proceed.

This process bears the following limitations:

- Although insurance firms report on the policies they have issued, IC cannot validate these reports because the databases are with private entities, namely, PIRA and D'Tech.
- The development and maintenance of the databases on motor vehicle registration and CTPL insurance policies are undertaken independently and in unsynchronized fashion. This has limited utility to the verification of the authenticity of COCs submitted.
- There is no LTO-IC data reconciliation mechanism, much less one supported by an electronic link, between the vehicle registration database of LTO and COCAS. This leaves the decision on the authenticity of a COC submitted for vehicle registration, to LTO personnel evaluating an application. Subject largely to human discretion, the process becomes predisposed to errors. Moreover, should a questionable insurance coverage be spotted, there is no reporting mechanism to the relevant regulatory entity, which is IC in this case.

### 3.3.2 Proposed LTO-IC-BIR Linkage for Monitoring Compliance with the CTPL Insurance Coverage

It is proposed that a functional linkage between LTO and IC be established (a) to ensure that all registered vehicles have valid CTPL insurance coverage, and (b) to track down COCs from questionable sources. The basic process to be supported by the linkage is the reconciliation of the COCs issued by the insurance companies and the COCs submitted with applications for motor vehicle registration.

Taking into consideration the varying levels of information technology support in LTO and IC, and existing contracts with third parties on CTPL insurance coverage authentication, the proposed linkage will be implemented in phases – over the short term and the long term.

- a. Short-term phase. Monthly manual data reconciliation arrangements between IC and LTO will be established and formalized through a memorandum of agreement (MOA). BIR will also be signatory to the MOA since it will be an end user of data to be generated and shared by IC and LTO. Specifically,
  - (i) IC will require insurance companies and PIRA to submit a monthly list of valid CTPL insurance policies/ COCs and the corresponding information on the vehicles covered. From these, IC will build and maintain a database of valid COCs.
  - (ii) IC will provide LTO with a list of valid CTPL insurance policies/ COCs and the vehicles that they cover. This will be done on a monthly basis.
  - (iii) LTO will then match the entries in its list of vehicles registered for the month, with IC's list of valid CTPL insurance policies/ COCs and the corresponding vehicles covered. LTO will then prepare the following:
    - (a) a report on the results of the reconciliation exercise for each registered vehicle. Possible results include an exact match, mismatch in make and/or model, mismatch in insurance company name, and mismatch in COC number.
    - (b) a list of vehicles found in LTO's database of registered vehicles but without valid CTPL insurance policies/ COCs in the IC database.
  - (iv) If a vehicle registered with LTO does not appear in the IC data, its COC will be considered questionable and will be subject to investigation. IC and LTO will consider policies and specific measures to minimize identified discrepancies.

- (v) IC will also work out the total amount of premiums from valid COCs on a monthly basis. This information, together with the LTO reconciliation report, will be forwarded to BIR to help the latter in its tax assessment function. Specifically, BIR will be able to match the TINs submitted by insurance companies to IC and BIR and ensure that the documentary stamp tax (DST) and other taxes due from insurance companies are paid.

The above process will be supported by improved personnel accountability. LTO registration personnel will be required to use a user ID each time they use the computer system to process applications for registration. This will ensure personnel accountability and maintain the integrity of the LTO database.

- b. Long-term phase. The short-term phase will also prepare the agencies for the long-term phase where data reconciliation and coverage verification will be supported by an electronic linkage. The long-term setup will allow detection of questionable CTPL coverage before vehicle registration.
  - (i) Upon acquisition of CTPL insurance coverage, the relevant information will be inputted in a database maintained by IC. LTO will be able to connect to this database for CTPL insurance coverage/ COC verification. At the same time, IC will be able to connect with LTO to relay updated CTPL insurance data.
  - (ii) Vehicle registration is permitted if a valid insurance record exists in the IC database.
  - (iii) Otherwise, the vehicle in question will be tagged as having invalid CTPL insurance coverage, not allowed to register, and be subject to investigation.
  - (iv) LTO will release regular reports on the failed matches it has encountered.

## 4. LAND TRANSPORT FRANCHISING

The land transport franchising track studied the processes deemed to be most relevant to transport operators transacting business with LTFRB and to the pre-identified problems of *colorum* vehicles and tax evasion by transport operators. These processes are:

- Application for new franchise by operators of PUVs
- Renewal or extension of franchise by operators of PUVs
- Application for confirmation of franchise. This is required for the annual registration of PUVs with LTO.

The period of validity of a franchise is five years. However, a franchise confirmation is acquired annually because LTO requires such before a vehicle could be registered as PUV carrying a yellow plate.

### 4.1 Process Issues

#### 4.1.1 New and renewal/ extension of franchise

The average processing time for applications for new franchise and extension of franchise ranges from 168 days (3 ½ months) to 453 (1 year and 1 month). The following process issues have been identified:

##### a. Non-value adding steps

A step in the franchising process is deemed non-value adding when it does not transform the document at hand and/or it is not necessary from the perspective of the customer or franchise applicant. The proportions of non-value adding steps to the total number of process steps performed in each of the following major activities in the processing of applications for new franchise and renewal of franchise are given below:

**Table 1. Non-value adding steps in processing land transport franchising applications**

<b>Major Activity in Application of New Franchise and Renewal of Franchise</b>	<b>Percentage of Non-Value Adding Process Steps</b>
Assessment and payment of application	32
Pre-docketing	50
Evaluation WITH hearing	19
Evaluation WITHOUT hearing	67
Encoding of information in database	50

#### **b. Issues related to documentary requirements**

- Franchise applicants noted that they are required to produce too many documents to accompany their applications.
- Currently, franchise applicants submit all documentary requirements before their cases are docketed. Because of the length of the entire franchising process, it is possible that by the time a hearing on an application finally takes place, some of the documents submitted are already out of date.
- The relevance or nature of necessity certain documentary requirements are not fully established. Moreover, LTFRB personnel do not have the complete means to authenticate the documents submitted by applicants. For example, there are no linkages to external databases that would facilitate validation of documents with the issuing authorities.

#### **c. Breaks in the processing of applications**

- Currently, franchise applications are attended to in batches, rather than singly or as they are lodged by operators. Operators have to wait for at least a day before processing on their applications can commence.
- In the pre-docketing phase, information on an application is entered in the LTFRB logbooks, which are ordered by year of vehicle registration. Because record keeping is manual, only one docket officer can use a logbook at any given time. Docket officers requiring the same logbook would have to fall in line.
- Transmittal slips are used to ensure personnel accountability as applications are transferred from one department to another. This results in redundancy and a potentially unwieldy process.
- Applications are assigned to evaluators by denomination or PUV type. Thus, depending on applications received, it is possible for evaluators to have uneven workloads. For example, an evaluator assigned to jeepneys may find himself with more workload than an evaluator assigned to school buses. When this happens, an evaluator with slack periods cannot partly relieve an evaluator with a disproportionately huge number of applications.
- A reliever is not always assigned if an evaluator is absent; thus processing proceeds only when the evaluator returns to work.
- Problems on the transmittal of notices of hearings result in “no-shows” by operators during the hearings on franchise applications.
- Due to sheer volume of applications, there is also delay in the signing of approved applications by the board chairperson and members.

#### **d. Long assessment time for fees and penalties**

- Documents previously submitted and used in the computation of fees and penalties are retrieved in batches from the file room. This practice of batching extends the time before the fees and penalties pertinent to an application could be computed.



- Because of the length of the entire franchising process, it is possible for submitted documents used in the computations of fees and penalties to be dated by the time assessment is done on an application.
- Operators do not have prior information on the fees and penalties to be paid. Subsequent trips have to be taken if not enough money was brought the first time.

#### **e. Physical layout of area where transactions take place**

There are separate windows for the submission of documents, assessment of applications, making of payments, and submission of applications with paid fees.

### **4.1.2 Confirmation of franchise**

The average processing time for applications for confirmation of franchise ranges from 3 to 39 days. The following process issues have been identified:

#### **a. Issues related to documentary requirements**

- Applicants also noted the numerous documents that they have to produce for a mere confirmation of a franchise that has already been granted.
- There are few or no means of validating the authenticity of submitted documents.
- Applications for confirmation of franchise are also batched rather than attended to as they are lodged.

#### **e. Redundancy in the verification process**

Two persons are needed to issue a confirmation of franchise. The first person tallies the information in the confirmation certificate with the information in a control log sheet. The second person goes over the confirmation certificate and then signs it.

## **4.2 Reengineering of Internal Processes**

A draft guidebook for the internal processes was prepared by project team. The guidebook details the recommendations for the reengineering of internal processes in land transport franchising. Notably, the following measures are recommended towards the reengineering of internal processes in land transport franchising.

#### **4.2.1 New and renewal/ extension of franchise**

It is estimated that the following proposed enhancements will reduce the average processing time for new and renewal/ extension of franchise applications to 90.5 working days (3 months).

##### **a. Grouping of documentary requirements**

In order for documents not to be out of date by the time hearing on an application takes place, it is recommended that the requirements be divided and submitted in two sets, namely:

- Documentary requirements for submission to the Technical Evaluation Division
- Documentary requirements for submission during hearings

##### **b. Minimizing breaks in the processing of applications**

- To shorten pre-docketing and final docketing activities, a computerized database will be maintained by the Management Information Division (MID). LTFRB computers will be upgraded to accommodate the additional functions.
- The numerous transmittal slips that are used as an application is transferred from one office to another will be replaced by a single routing slip per case. The practice reduces redundancies and shortens processing time as it tracks personnel accountability.
- Denomination or PUV type will not be used as basis for assigning applications to evaluators. An evaluator can attend to all applications regardless of denomination. This will even out the load of evaluators and minimize backlogs.
- Notices of hearings will be released to applicants as soon as application fees are paid. This will eliminate no-shows in hearings and the need for re-scheduling.
- The need for board members and the chairperson to sign each and every approved application will be reviewed.

##### **c. Decoupling of fees and fines/ penalties**

While fees pertinent to land transport franchising are fixed, fines/ penalties are computed for individual cases based on prescribed formulae. If fees and fines/ penalties are decoupled, fees could be paid as an application is lodged. After fines/ penalties have been computed, notices could be mailed to applicants or posted in the LTFRB bulletin board. They should then be settled before processing could proceed.

#### **4.2.2 Confirmation of franchise**

It is estimated that the following proposed enhancements will reduce the average processing time for confirmation of franchise to 1 day.

##### **a. Reducing documentary requirements**

The documentary requirements for confirmation of franchise will be reduced to the following:

- LTO official receipt/ certificate of registration of the previous year
- Coverage for passenger accident insurance (PAI) and CTPL
- BIR tax clearance

##### **b. Simplifying the verification process**

- The approval of applications for franchise confirmation will be based on the completeness and accuracy of documents submitted, as verified from issuing agencies. This will be facilitated by regular data reconciliation with the concerned agencies in the short run and through automated external linkages in the long run.
- The confirmation certificate will be printed immediately after fees have been paid. The MID officer will evaluate the submitted documents and immediately affix his signature to the confirmation certificate if the documents are in order.

#### **4.3 Establishing LTFRB-LTO Linkages to Reduce the Incidence of *Colorum* Vehicles**

For purposes of this study, a *colorum* vehicle is a motor vehicle registered and being operated for public utility purposes but without a valid franchise. The proliferation of *colorum* vehicles is partly due to LTFRB's lack of capability and external linkages to authenticate requisite documents.

It is proposed that a functional linkage between LTFRB and LTO be established to ensure that all motor vehicles applying to be registered as PUVs with LTO have valid franchises from LTFRB. The basic process to be supported by the linkage is the reconciliation of PUV registrations and land transport franchises granted.

Taking into consideration the current varying levels of information technology support in the Management Information Divisions (MIDs) of LTFRB and LTO and to allow these agencies to set up electronic linkages, the proposal will be implemented in phases – over the short term and the long term. Implementation will also be limited to the Central Offices of both agencies.

### 4.3.1 Short-term phase

Activities in the short-term phase will be formalized through a memorandum of agreement between LTFRB and LTO.

- a. LTFRB will create the Franchise Violation Database. It will house (a) mismatches between LTO's PUV registrations and LTFRB's issuances of franchises, and (b) reported apprehensions of *colorum* vehicles by enforcement agencies, namely, LTO, the Philippine National Police (PNP), the Metro Manila Development Authority (MMDA), and other deputized agencies, such as non-government organizations (NGOs).
- b. LTO will provide LTFRB monthly data on the vehicles it has registered as PUVs. At the same time, LTFRB will assemble monthly records of franchises it has granted.
- c. Upon receipt of LTO's PUV registrations for a particular month, LTFRB will check if the vehicles registered as PUVs appear in its record of franchises issued. LTFRB will input the mismatches in the Franchise Violation Database.
- d. LTO will provide LTFRB with a consolidation of *colorum* apprehensions by the enforcement agencies identified in (i). LTFRB will input these *colorum* apprehensions in the Franchise Violation Database.
- e. LTFRB will provide LTO with a list of identified *colorum* vehicles from (iii) and (iv). LTO will tag these vehicles and take appropriate action.
- f. LTO will summon the registered owner of a *colorum* vehicle and require him to show proof of a valid franchise issued by LTFRB. Failure to do so will result in the revocation of his motor vehicle registration with LTO and the imposition of applicable penalties.
- g. Before a vehicle with revoked registration could subsequently be registered with LTO, its owner should follow prescribed procedures for having the vehicle in question removed from LTFRB's Franchise Violation Database. If the vehicle will be used for public utility purposes, this involves securing a valid franchise for the vehicle. Otherwise, compliance with penalties could clear a tagged vehicle for registration as a private vehicle.
- h. The process described above will be supported by an improved system of personnel accountability. LTO will require its registration personnel to use their user ID for logging onto the LTO system before processing applications for registration. Personnel found to have allowed the PUV registration of a vehicle without a valid franchise will be the subject of corrective action.

**4.3.2 Long-term phase.** Implementation of the long-term phase assumes upgrading of the IT support of LTFRB and LTO to allow direct data sharing between the two agencies. The linkages will also be extended to their regional offices.

The process for identifying *colorum* vehicles will essentially be the same. The long-term setup, however, will allow detection of the lack of a valid franchise before vehicle registration.

#### **4.4 Establishing LTFRB-BIR Linkages to Reduce Tax Evasion**

It is proposed that a functional linkage between LTFRB and BIR be established to provide timely and correct information for assessing the tax payments due from transport operators, many of whom are able to operate without paying correct taxes. The basic processes to be supported by the linkage are (1) the transfer of information on PUV operators from LTFRB to BIR for the purpose of tax assessment, and (2) the transfer of information on issued tax clearances from BIR Revenue District Offices (RDOs) to the BIR Information Systems Group (ISG).

Taking into consideration the varying levels of information technology support in LTFRB and BIR and to allow these agencies time to set up electronic linkages, the proposal will be implemented in two phases – the short term and the long term.

##### **4.4.1 Short-term phase**

- a. Activities in the short-term phase will be based on the current structure and level of IT support in LTFRB's MID and BIR's ISG. Implementation will include all RDOs of BIR and the Central Offices of BIR and LTFRB.
- b. BIR will establish and maintain a Tax Clearance (TCL) Database, which will house information from the tax clearances issued by RDOs. The Centralized TCL database will be housed in the BIR Central Office.
- c. LTFRB, on the other hand, will provide space and facilities for a BIR extension office/ special desk within its premises. This extension office will have access to the Centralized TCL database. It will have the purpose of authenticating TCLs presented by franchise applicants to LTFRB.
- d. LTFRB will provide BIR with the following:
  - An updated list of current franchise case information. This list will be updated on a monthly basis and will include new and extended franchises, as well as franchises with ceased/ terminated operations.
  - A monthly report on *colorum* vehicles generated from LTFRB's Franchise Violation Database.

- e. LTFRB will inform transport operators that applications for new franchises and extensions of franchises should be accompanied by TCLs secured from their respective RDOs or from the BIR extension office/ special desk in the LTFRB Central Office, in lieu of tax returns.
- f. In the issuance of a TCL, BIR personnel will take into consideration, in addition to its existing list of documentary requirements, information on transport operators as described in (ii). If a franchise applicant's documentary requirements are in order, a TCL will be issued. Otherwise, the applicant will be advised to file the necessary returns to his RDO or pay the basic tax and penalties to an accredited agent bank.
- g. Immediately after issuance, RDOs will forward information on the TCLs it has issued, to the BIR-ISG. The latter will upload the information to the Centralized TCL database.
- h. LTFRB will forward TCLs submitted with franchise applications, to the BIR extension office/ special desk at the LTFRB Central Office. Designated BIR personnel will then validate the TCLs against information contained in the Centralized TCL database, indicate on the face of the TCL a fact of verification, and affix his signature. Otherwise, BIR personnel will contact the RDO concerned about TCLs that fail to be validated against the Centralized TCL database.
- i. LTFRB will allow applications with validated TCLs to proceed. Otherwise, the applicant will have to secure a valid TCL, as described in (iv).

#### **4.4.2 Long-term phase**

In the long-term phase, LTFRB will develop its IT support to establish and maintain (i) an LTFRB- BIR link and (b) LTFRB Central Office- Regional Offices links. The BIR extension office/ special desk housed in the LTFRB Central Office will be phased out. Its TCL validation/ authentication function will be transferred to the LTFRB Regional Offices, which will have access to the Centralized TCL database.

Although the basic procedure in the short-term phase will be retained, the following modifications will be undertaken:

- a. *Information on approved franchise applications.* LTFRB Regional Offices will electronically forward all recently approved franchise applications to the LTFRB Central Office. The LTFRB Central Office will prepare a consolidation of approved franchise applications and forward such to the BIR Central Office.

- b. *Access to the Centralized TCL Database.* To effectively transfer the function of validating TCLs to the LTFRB Regional Offices, the Technical Evaluation Division (TED) of each Regional Office will be given read-only access to the Centralized TCL Database.
  
- c. *Financial report summaries of transport operators.* With the electronic link between BIR and LTFRB established, the summary financial report of transport operators, which is submitted with their applications, could be automatically uploaded into the Centralized TCL Database. BIR will then use this information to reconcile the income reported by franchise operators to BIR with that reported to LTFRB. Inconsistencies will prompt the BIR Case Monitoring System (CMS) to trigger an investigation by informing the concerned RDO.

The integrated system for motor vehicle registration, land transport franchising, and their sub-processes of taxation and insurance is thus hinged on (1) the reengineering of the internal processes in LTO and LTFRB and (2) the establishment of the three external linkages described above. A summary of the key features of the external linkages is presented in Tables 2 and 3 below.

**Table 2. Summary of LINKAGES proposed for an integrated system of motor vehicle registration, land transport franchising, taxation, and insurance.**

AGENCIES INVOLVED	PURPOSE OF LINKAGE	PROCESSES TO BE SUPPORTED BY LINKAGE	REPOSITORY OF SHARED DATA	EXPECTED OUTPUTS AND OUTCOMES
Insurance Commission (IC) – Land Transportation Office (LTO) – Bureau of Internal Revenue (BIR)	<ul style="list-style-type: none"> <li>- To ensure that all registered vehicles have valid CTPL insurance coverage</li> <li>- To identify Certificates of Cover (COCs) from questionable sources</li> </ul>	Reconciliation of COCs issued by the insurance companies and the COCs submitted with applications for motor vehicle registration.	Database of valid COCs	<ul style="list-style-type: none"> <li>- List of vehicles found in LTO's database of registered vehicles but without valid CTPL COCs in the IC database</li> <li>- Corrective measures and policies on questionable COCs</li> <li>- Total amount of premiums from valid COCs; will help BIR in tax assessment</li> </ul>
Land Transportation and Franchising Regulatory Board (LTFRB) – LTO	- To ensure that all motor vehicles applying for PUV registration with LTO have valid franchises from LTFRB.	Reconciliation of PUV registrations with LTO and land transport franchises granted by LTFRB.	Franchise Violation Database	<ul style="list-style-type: none"> <li>- List of <i>colorum</i> vehicles and <i>colorum</i> apprehensions by enforcement agencies</li> <li>- Tagging of <i>colorum</i> vehicles by LTO</li> <li>- Acquisition of proper franchise for <i>colorum</i> vehicles to be reclassified otherwise</li> <li>- Corrective measures and policies on <i>colorum</i> vehicles</li> </ul>
LTFRB-BIR	- To provide timely and correct information for assessing tax payments due from transport operators	<ul style="list-style-type: none"> <li>- Transfer of franchise case information from LTFRB to BIR for the purpose of tax assessment</li> <li>- Transfer of information on issued tax clearances (1) from BIR revenue district offices to the BIR Information Systems Group, and then (2) from BIR to LTFRB</li> </ul>	Centralized Tax Clearance Database	<ul style="list-style-type: none"> <li>- Prevention of registration of vehicles without valid tax clearances</li> <li>- Proper payment of taxes by transport operators</li> <li>- Corrective measures and policies on non- and underpayment of taxes by transport operators</li> </ul>



**Table 3. Main features of SHORT-TERM and LONG-TERM phases of proposed linkages**

<b>PHASE</b>	<b>OFFICE LEVELS INVOLVED</b>	<b>LEVEL OF IT SUPPORT</b>	<b>IMPLEMENTING ISSUANCE</b>
Short term	Central offices	Current level -- mixture of manual and automated processes	Memoranda of agreement among concerned agencies; drafts are outputs of this technical assistance project.
Long term	Central and regional offices	Upgraded to allow fully automated transactions, immediate updating of databases, and full-time access to databases from offices where transactions take place	Second set of memoranda of agreement to be drafted by concerned agencies at such time when mechanisms have been set up and agencies' readiness have been established.

## **5. CONSIDERING RISKS IN TAXING MOTOR VEHICLE REGISTRATION AND LAND TRANSPORT FRANCHISING**

This component of the study looks at the problems and proposed systems improvements in motor vehicle registration and transport franchising from a tax revenue risk assessment framework. Risk assessment considers both the amount of taxes that is potentially lost (or remains uncollected) due to certain vulnerabilities, and the likelihood or probability that the vulnerabilities will be exploited and tax losses occur. The risk assessment is carried out from the BIR's point of view, taking into accounts the following:

First, the tax environment within which the tax administration and the taxpayers function;

Second, the specific risks to the proper collection of taxes in motor vehicle registration and public utility vehicle franchising;

Third, assessment of the risks by estimating the losses in taxes from certain vulnerabilities in the system of assessment and collection, and the likelihood of their occurrence; and

Lastly, the remaining or residual risks assuming the proposed systems improvements are adopted.

### **5.1 The tax environment: administration and taxpayer behavior**

In assessing the effectiveness of tax administrations, it is indispensable to study taxpayer behavior<sup>1</sup>. In turn, taxpayer behavior is a consequence of different aspects such as:

- Risk of detection of non-compliance, and the severity of consequences.
- Quality of assistance provided by the revenue authority to enable taxpayers to comply with their legal obligations.
- Effectiveness of the revenue authority in resolving taxpayer problems.
- Public perception regarding the degree of corruption in the revenue authority.
- Morale and self-image of the revenue authority.

### **5.2 Assessing the tax risks in motor vehicle registration and land transport franchising**

#### **5.2.1 Tax risk assessment and measurement**

The tax risk assessment and measurement was carried out following a 2-step process:

- First, is to quantify the amount of taxes that is potentially lost (or remain uncollected) as a result of exploiting a particular vulnerability or weakness in the system

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<sup>1</sup> A Diagnostic Framework for Revenue Administration. World Bank Technical Paper No. 472. 2000.

- Second, is to determine the likelihood or probability of occurrence. Table 4 below provides a categorization of likelihood that was used in assigning probability of occurrence, where quantitative basis is not available.

Table 4. Likelihood definitions

Likelihood Level	Likelihood Definition
High	If the source of risk is highly motivated and sufficiently capable of exploiting the vulnerability.
Moderate	If the source of risk is motivated and capable, but there are other systems in place that may impede the successful exploitation of the vulnerability.
Low	If the source of risk is incapable of successfully exploiting the vulnerabilities.

### 5.2.2 Tax risk in land transport franchising

Taxes due from land transport operators include: income tax, value added tax (VAT) or percentage tax also known as common carriers tax (CCT), documentary stamp tax (DST), and withholding tax (on compensation and expanded).

Based on the data of 33,806 transport operators provided by the LTFRB, the BIR found that at least 9,376, or 28%, were without valid TINs or possessing none at all. Only 258 operators had paid at least one tax in 2004. The rest, 33,548 operators, did not pay any tax in 2004. For the 258, the average gross income declared was about P5.9 billion per taxpayer. The 258 were considered big operators while the 33,548 were treated “small” operators or single proprietors. By using known parameters, such as the average value of “boundary” as a proxy of daily revenue for the transport operator, the annual gross income of a single proprietor was estimated—P218 thousand per jeepney operator and about P253 thousand per taxicab operator.

Table 5 shows the computed risk to taxation from small transport operators that are assumed to be operating as single proprietors. LTFRB is unable to properly validate the TIN’s presented by operators during franchise application, extension or renewal and yearly confirmation. It is also unable to verify the validity of the tax returns presented during these processes.

Table 5. Land transport franchising: small players (33,548 operators)

Risks to Tax Collections	Source of risk	Vulnerability	Potential Loss	Probability	Risk
<u>Non declaration</u> (Potential Risk reflects tax benefits by capturing into the tax net)	<b>Nonpayment of Taxes (2004 data)</b>		P13.5 M in IT	100%	P13.5 M
			P9.5 M in CCT		P9.5 M
	Invalid TIN	LTFRB currently unable to verify validity of operators' TIN.			
	Non-Filing (valid TIN)	LTFRB unable to check validity of tax returns.			
	No TIN	LTFRB allows renewal/confirmation once fine for "No TIN" is paid.			
<u>Under-declaration</u> (In addition, making sure of proper declaration)	Under-payment of Taxes (2004 data)		P237 M in CCT	96%	P227 M
	Under-declaring income for CCT	BIR/LTFRB unable to verify actual income earned apart from that prescribed in Sec. 117.			

Table 6, on the other hand, estimates tax risks for the 258 transport operators that had valid TIN's and paid income taxes for 2004, but did not pay the appropriate business tax. Under-declaration and the consequent underpayment of the common carrier's tax results from understating gross income. While busses issue tickets to every passenger indicating the price one pays for a single journey, taxicabs and jeepneys do not. This absence of any income recording system makes it very difficult for the BIR to determine whether the income declared by operators in their percentage tax returns are accurate or true.

Table 6. Land transport franchising: big players (258 operators)

Risks to Tax Collections	Source of risk	Vulnerability	Potential Loss	Probability	Risk
<u>Non declaration</u> (Payment of IT but not for business tax)	<b>Nonpayment of Taxes</b> (2004 data)		P395 Th in CCT	2%	P6.4 Th
			P12.9 B in VAT	3%	P388 M
	Non-payment of VAT/CCT	LTFRB unable to verify validity of tax return.			
<u>Under-declaration</u> (Again, involves making sure of proper declaration of income)	<b>Underpayment of Taxes</b> (IT may be affected; 2004 data)		P19.6 M in CCT	98%	P19.2 M
	Under-declaring income for CCT	Income is understated to increase chance of fare hike. Further, Sec. 117 of NIRC (minimum gross income) is used when computing CCT.			

### 5.2.3 Tax risks in motor vehicle registration

The tax risks in motor vehicle registration covered in the study pertained mainly to the taxes due to compulsory third party liability (CTPL). The tax risks emanate from the use of fake CTPLs and under-declaration by insurance firms of CTPLs issued. The estimated tax risks are shown in table 7.

Table 7. Motor vehicle registration (private use)

Risks to Tax Collections	Source of risk	Vulnerability	Potential Loss	Probability	Risk
Under-declaration	By under-declaring Premium payments	Verification of COC authenticity is bypassed allowing registration even with fake or spurious COC's.	P350 M DST (2004).	77%	P270 M in DST alone.
			P336 M VAT (no data for income tax)		P259 M in VAT.

## VI. NEXT STEPS

The proposed process and systems improvements require changes in the way the government agencies conduct their affairs. The following factors are critical in effecting the changes suggested by the study:

### 1. Leadership

Given the hierarchical and formal structure of public sector organizations, the officials or heads of agencies play a major role in introducing and implementing change or reform.

The study was conceptualized through a series of meetings with heads of the four agencies: Assistant Secretary Anneli Lontoc (LTO), Chairperson Maria Elena Bautista, (LTFRB), Commissioner Evangeline Escobillo (IC), and Commissioner Jose Mario Buñag (BIR). They recognized that they have functions that are interconnected, and they can only be effective in performing them if they cooperate and work together.

The leadership provided the direction, assigned the staff in the agencies who will work with the project team, and gave clearance and approval for the proposed changes.

Unfortunately, leadership tends to be personality-based. Changes in leadership are usually accompanied by new set of priorities and directions. In November 2006, shortly before the project ended, then LTO Assistant Secretary Anneli Lontoc and LTFRB Chairperson Maria Elena Bautista were designated Department of Transportation and Communication Undersecretaries. They were replaced by Retired General Reynaldo Berroya and Retired General Thompson Lantion, respectively. To date, the proposed system changes, particularly in the external or interagency linkages, remain to be acted upon despite efforts of the project team to orient the new leadership of LTO and LTFRB. Notwithstanding the reluctance of LTO and LTFRB officials, Internal Revenue Commissioner Bunag and Insurance Commissioner Escobillo continue to push for the implementation of the proposed system changes. With technical assistance from EMERGE, the IC is developing an automated database and clearing system for the authentication and validation of CTPL. It is intended to replace the current system, which has been proven to be ineffective.

### 2. Legal basis

People in government are used to following procedures and routines. Changes in procedures to be adopted and implemented often require the issuance of rules, orders, or legal basis.

The project translated the proposed internal systems improvements into Operations Manual and Guidebooks. At the LTO, the preparation of an updated Operations Manual is regarded as a springboard for ISO (ISO 9001:2000 QMS) certification for Motor Vehicle Registration Processes. (A copy of the office order designating a study group for updating the manual is Attachment 4 of this Integrative Report. The draft operations manual is found in the Motor Vehicle Registration Section.) A Guidebook for the use of LTFRB

personnel as well as a separate proposed systems report was also prepared. (A copy of the draft Guidebook is found in the Land Transport Franchising Section.)

At the LTO, an office order has been issued to implement the team's proposed processes for transaction time monitoring and reporting and classifying systems issues based on frequency and urgency (A copy of this office order is found as Attachment 5 of this Integrative Report).

Memoranda of Agreements were drafted to institute the proposed linkages among the agencies concerned. The draft MOAs tried to provide specific directives. These include:

- a. MOA among the LTO, IC and BIR for CTPL Reporting (Attachment 1 of this Integrative Report);
- b. Implementing Guidelines on electronic information interchange between the BIR and LTFRB for colorum vehicle reporting (Attachment 2 of this Integrative Report); and
- c. MOA between the LTO and LTFRB for exchange of tax-related information (Attachment 3 of this Integrative Report).

The signing of the MOAs were postponed as the new agency heads requested for more time to study them. To date, only BIR Commissioner Jose Mario Buñag has affixed his signature on the draft MOAs. Insurance Commissioner Escobillo, on the other hand, has initiated the drafting of a revised Memorandum of Agreement (MOA) among the Insurance Commission (IC), the Land Transportation Office (LTO), and the Bureau of Internal Revenue (BIR) that will institutionalize a linkage IC and LTO databases to enable automated, real-time transaction in the insurance and registration of motor vehicles, and allow reconciliation and sharing of information among the three agencies. It will also incorporate the payment of insurance premium through the banking system, which in turn will distribute payments to various parties, including tax payment to BIR.

### **3. IT capacity enhancement**

Only the LTO and BIR are computerized. The IC and LTFRB are just embarking on their computerization program.

Meaningful sharing of information involving voluminous transactions could only be made possible with the use of integrated IT systems.

The data formats and platforms of the IT systems to be developed in the LTFRB and IC should seriously consider compatibility with the BIR and LTO IT systems.

People particularly at LTFRB and IC need training to enhance their IT knowledge and skills. LTFRB has engaged the services of Microsoft, Inc. for its computerization program. The project team had several meetings with Microsoft representatives, wherein they were briefed of the project's findings and recommendations. A copy of the proposed systems report on transport franchising was also provided to Microsoft, Inc.

#### **4. Culture change**

Government agencies tend to be narrowly focused on their specific mandates. There is usually low integration among different agencies of the government.

The activities enumerated and elaborated in this report emphasize the need to prepare all parties in the collaborative effort to have a common goal, and a set of systems and procedures in order for the collaboration to be successful.

Each agency has to look beyond their individual activities and outputs, and train their sights on the outcomes and results that the government as a whole is expected to deliver.



**Attachment 1**

**MEMORANDUM OF AGREEMENT**

**By and Among the**

**Land Transportation Office,**

**The Insurance Commission and the**

**Bureau of Internal Revenue**

**December \_\_\_\_, 2006**

WHEREAS, the Land Transportation Office (hereinafter LTO for brevity), the Insurance Commission (hereinafter IC for brevity) and the Bureau of Internal Revenue (BIR) recognize the need to utilize new electronic means to deliver core public services related to motor vehicle registration and insurance in order to demonstrate the benefits derived therefrom and to promote the use of such means as mandated by Republic Act No. 8792, otherwise known as the “Electronic Commerce Act”;

WHEREAS, the parties also recognize the benefits from information sharing, coordination and networking among them, preferably in new electronic means in order to eventually reduce transaction costs and business risks, insure proper payment of taxes, and improve delivery of public services;

WHEREAS, the parties acknowledge and comprehend the need to re-engineer and streamline existing business processes and linkages related to the authentication of COCs and the subsequent registration of motor vehicles, thus assuring the public of its insurance coverage, ensuring proper reporting of insurance premiums on CTPL insurance business, and guaranteeing the payment of proper taxes to the government which at the same time will redound to the benefit and protection of the general public;

WHEREAS, in line with the recognition of the above objectives, the parties recognize the need to reconcile the data of COCs issued by insurance companies as against the COCs used in the registrations of motor vehicles with the LTO;

WHEREAS, the parties realize existing limitations in their respective agencies in terms of information technology infrastructure and capability and in terms of legal and contractual obligations with third party contractors but desire to setup a mechanism to immediately address the issue of fake, spurious or unauthorized COCs;

NOW THEREFORE, for and in consideration of the foregoing premises, the parties hereto have entered into this Agreement and agree to be bound by the obligations set hereunder:

**ARTICLE I**  
**STATEMENT OF PURPOSE**

The purpose of this Agreement is to provide for a regular mechanism for the reconciliation of the COCs issued by insurance companies against the COCs used in the registration of motor vehicles with the LTO, thereby ensuring that the proper taxes are collected by/paid to the government. Such mechanism shall be in effect until such time when a new mechanism, mutually agreed upon by the parties, is put in place.

**ARTICLE II**  
**SCOPE OF RESPONSIBILITIES AND OBLIGATIONS**

The Parties' respective and joint obligations under this Agreement are as follows:

- I. The IC shall:
  1. Require insurance companies and the PIRA to regularly submit to the IC a monthly list of valid COCs and insured motor vehicles, within a reasonable time from the close of a month, which shall contain the following fields / information:
    - a. Motor Vehicle License Plate Number
    - b. Motor Vehicle Chassis Number
    - c. Make of Motor Vehicle
    - d. Model of Motor Vehicle
    - e. Accredited Insurance Company
    - f. COC Number
    - g. Date of Purchase
    - h. Amount of Premium
  2. Create, build and maintain a database of valid COCs and insured motor vehicles from the monthly reports submitted by the accredited insurance companies and the PIRA.
  3. Generate on a monthly basis from its database a List of Valid COCs and Insured Motor Vehicles (see Appendix A) for the given reconciliation period for submission to the LTO in electronic form within fifteen (15) days after close of the month, with the following fields:
    - a. Motor Vehicle License Plate Number
    - b. Motor Vehicle Chassis Number
    - c. Make of Motor Vehicle
    - d. Model of Motor Vehicle
    - e. Accredited Insurance Company
    - f. COC Number

4. Receive from the LTO the Reconciliation Report of COC Databases and COC Reconciliation Report.
5. Generate on a monthly basis from its database a List of Total Amount of Premiums for Valid COCs Issued Per Accredited Insurance Company (see Appendix B) for a given period for submission to the BIR in electronic form within 15 days after close of the month, with the following fields:
  - a. Accredited Insurance Company
  - b. Accredited Insurance Company TIN
  - c. Total Amount of Premiums for Valid COCs Issued
6. On the basis of the Reconciliation Report of COC Databases and COC Reconciliation Report received from the LTO, formulate and implement punitive and preventive measures to minimize the incidence of discrepancies between the COC database of the parties through a review of its procedures in the grant of licenses to insurance companies and an evaluation of the existing contracts with third parties relative to the authentication of COCs.

II. The LTO shall:

1. Make it mandatory for all LTO personnel to log in and enter their respective "User ID" in their computer system prior to encoding/processing any transactions of the public with them, in order to ensure proper accountability of motor vehicle registration transactions, and thereby maintain the integrity of its computer database.
2. Receive from the IC the monthly List of Valid COCs and Insured Motor Vehicles with the following fields:
  - a. Vehicle License Plate Number
  - b. Vehicle Chassis Number
  - c. Make of Motor Vehicle
  - d. Model of Motor Vehicle
  - e. Accredited Insurance Company
  - f. COC Number
3. Reconcile the data from the IC with its own database and generate the following monthly reports:
  - a. Reconciliation Report of COC Databases (see Appendix C) in electronic form showing the exact same fields used by the IC with an additional field which should reflect the results of the reconciliation and indicate any of the following reports:

- M : exact match
- A : vehicle record absent from LTO
- C : mismatch with insurance company name
- N : mismatch with COC #
- CN : mismatch with insurance company name and COC #
- MM : mismatch with make and / or model

- b. Exception Report (see Appendix D), consisting of motor vehicle registration transactions found in the LTO database but not included in the IC's List of Valid COCs and Insured Motor Vehicles, which shall contain the following fields / information:
    - i. Vehicle License Plate Number
    - ii. Vehicle Chassis Number
    - iii. Make of Motor Vehicle
    - iv. Model of Motor Vehicle
    - v. Accredited Insurance Company
    - vi. COC Number
    - vii. District Office where registration transaction was carried out and encoded
    - viii. Registration Transaction Date
    - ix. Transacting LTO User / User ID
  - c. COC Reconciliation Report (see Appendix E) which shall reflect on a per accredited insurance company basis the following information:
    - i. Name of accredited Insurance Company
    - ii. Number of motor vehicles registered with LTO with COCs of accredited Insurance Company
    - iii. Number of COCs issued by accredited Insurance Company per IC list
    - iv. Difference / Discrepancy between LTO and IC data
4. Submit the Reconciliation Report of COC Databases and COC Reconciliation Report to the IC and BIR, Attn.: AITEID, within fifteen (15) days after close of the month.
  5. On the basis of the Exception Report generated, formulate and implement punitive and preventive measures to minimize the incidence of discrepancies between the COC database of the parties through a review of its procedures in the accreditation of insurance companies for purposes of motor vehicle registration and blacklisting insurance companies and / or preventing registrations of motor vehicles with insurance information from erring insurance

companies and notifying district offices of the proliferation of motor vehicle registrations with spurious COC records.

III. The BIR shall:

1. Receive from the IC the monthly List of Total Amount of Premiums for all COCs issued Per Accredited Insurance Company.
2. Receive from LTO the monthly Reconciliation Report of COC Databases and COC Reconciliation Report.
3. Verify from its database the accuracy of the respective Tax Identification Numbers (TINs) reflected in the said reports for each accredited insurance company.
4. Conduct the necessary examination to verify from its own database that the documentary stamp tax (DST) and other taxes paid by each accredited insurance company tally with the premiums declared by the insurance companies to the IC, as well as with the computed premiums based on the number of COCs presented to the LTO as shown in the reports of LTO submitted to the BIR.
5. Conduct tax audit investigation on the companies found in the Reconciliation Reports received, and if necessary, coordinate with IC and LTO to ensure that the proliferation of illegitimate CTPL business/es is minimized, if not totally eliminated.

IV. The LTO, IC and BIR shall:

1. Create an Inter-Agency Coordination Committee that shall oversee the smooth and proper implementation of the provisions of this Agreement.
2. Make available and designate qualified personnel who will be accountable in the proper implementation of the reconciliation mechanism for COCs.
3. Take disciplinary action on their respective personnel found violating any of the provisions of this Agreement.
4. Promulgate the necessary memorandum circulars to disseminate and execute the provisions of this Agreement in their respective offices.
5. Obtain and make available such additional data or information which each party may later need to get/receive from each other or from third parties that will have to be included in the reports herein agreed to be submitted among them, to ensure that the objectives of this Agreement are achieved.

**ARTICLE III  
ENCLOSURES / VARIANCES BETWEEN DOCUMENTS**

The following enclosures are integral parts of this Agreement:

Appendix Letter:

- “A” Insurance Commission  
List of Valid COCs and Insured Motor Vehicles  
For the period ended \_\_\_\_\_
  
- “B” Insurance Commission  
List of Total Amount of Premiums for Valid COCs Issued Per  
Accredited Insurance Company  
For the period ended \_\_\_\_\_
  
- “C” Land Transportation Office  
Reconciliation Report of COC Database  
For the period ended \_\_\_\_\_
  
- “D” Land Transportation Office  
Exception Report  
For the period ended \_\_\_\_\_
  
- “E” Land Transportation Office  
COC Reconciliation Report  
For the period ended \_\_\_\_\_

If there be any contradiction or inconsistency between this Agreement and its enclosures, this Agreement shall take precedence and the parties undertake to take all reasonable steps to eliminate any such contradiction and inconsistency.

The hereto attached relevant appendices shall be kept up-to-date and amendments thereto shall be executed in writing by the parties as a result of agreed amendments to the Agreement.

**ARTICLE IV  
CONFIDENTIALITY OBLIGATION**

1. Each of the **PARTIES**, as Recipient, hereby agrees on behalf of itself and its representatives and officers that information provided to each other shall be treated with strict confidentiality and shall not be disclosed or made available to any person

for any reason whatsoever, other than for the purpose of performing their respective mandates as government agencies, and then only to: (a) its representatives and officers; or (b) as provided below, during the duration of this MOA and even after its expiration or termination.

2. The above confidentiality restrictions shall not apply to the disclosure of information which is:
  - a. disclosed following written consent from the PARTY disclosing the information;
  - b. required by law or by any competent court, governmental or regulatory authority or securities exchange and on legislative hearings;
  - c. already in the public domain (other than as a result of disclosure by the Recipient or its representatives and officers in violation of this Agreement).

## **ARTICLE V EFFECTIVITY AND MODIFICATIONS**

The provisions of this Agreement shall take effect upon execution by the parties and shall remain in full force and effect until otherwise repealed, amended or modified by mutual agreement of the Parties upon the enhancement of their respective information technology resources and capabilities and release from legal and contractual obligations.

**For the Land Transportation Office:**

**For the Insurance Commission:**

\_\_\_\_\_  
**REYNALDO BERROYA**  
Assistant Secretary and LTO Chief

\_\_\_\_\_  
**EVANGELINE CRISOSTOMO-ESCOBILLO**  
Commissioner

**For the Bureau of Internal Revenue:**

\_\_\_\_\_  
**Jose Mario C. Buñag**  
Commissioner



**Appendix A**

Insurance Commission  
List of Valid COCs and Insured Motor Vehicles  
For the period ended \_\_\_\_\_

MV Plate Number	MV Chassis Number	Make of MV	Model of MV	Accredited Insurance Company	COC Number	Date of Purchase	Amount of Premium

**Appendix B**

Insurance Commission

List of Total Amount of Premiums for Valid COCs Issued Per Accredited Insurance Company

For the period ended \_\_\_\_\_

Accredited Insurance Company TIN	Accredited Insurance Company	Total Amount of Premium

### Appendix C

Land Transportation Office  
Reconciliation Report of COC Database  
For the period ended \_\_\_\_\_

MV Plate Number	MV Chassis Number	Make of MV	Model of MV	Accredited Insurance Company	COC Number	Reconciliation Result *

\*Legend:

- M : exact match
- A : vehicle record absent from LTO
- C : mismatch with insurance company name
- N : mismatch with COC #
- CN : mismatch with insurance company name and COC#
- MM : mismatch with make or model

**Appendix D**

Land Transportation Office

Exception Report

For the period ended \_\_\_\_\_

MV Plate Number	MV Chassis Number	Make of MV	Model of MV	Accredited Insurance Company	COC Number	Responsible District Office for MV Registration	Registration Transaction Date	Transacting LTO User/User ID

**Appendix E**

Land Transportation Office  
COC Reconciliation Report  
For the period ended \_\_\_\_\_

Name of accredited Insurance Company	Number of COCs per LTO database	Number of COCs issued per IC database	Discrepancy/ Difference

**ATTACHMENT 2**

**MEMORANDUM OF AGREEMENT**

KNOW ALL MEN BY THESE PRESENTS:

This Memorandum of Agreement is entered into this 20<sup>th</sup> December 2006 and between :  
THE **LAND TRANSPORTATION OFFICE** (LTO, for brevity) represented by its Head of Office ASSISTANT SECRETARY REYNALDO I. BERROYA and THE **LAND TRANSPORTATION FRANCHISING AND REGULATORY BOARD** (LTFRB, for brevity) represented by its Chairman of the Board HON. THOMPSON C. LANTION both with address at East Avenue, Quezon City.

WITNESSETH:

WHEREAS, the Land Transportation Office (hereinafter LTO for brevity), and the Land Transportation Franchising and Regulatory Board (hereinafter LTFRB for brevity) recognize the need to utilize new electronic means to deliver core public services related to land public transport franchising in order to demonstrate the benefits derived therefrom and to promote the use of such means as mandated by Republic Act No. 8792, otherwise known as the “Electronic Commerce Act”;

WHEREAS the parties also recognize the benefits from information sharing, coordination and networking among the parties preferably in new electronic means which will eventually reduce transaction costs and business risks, insure proper payment of taxes, and improve delivery of public services;

WHEREAS the parties acknowledge and comprehend the need to reengineer and streamline existing business processes in and linkages related to the public transport franchising and subsequent registration of these public utility vehicles to ensure that only legitimate and duly franchised operators are able to register their motor vehicles as a public transport which will redound to the benefit and protection of the riding public;

WHEREAS the parties recognize that there is a need to conduct a regular reconciliation of the data of motor vehicles with valid franchises issued by the LTFRB with motor vehicles registered with the LTO as public utility vehicles;

WHEREAS the parties realize existing limitations in their respective agencies in terms of information technology infrastructure and capability and other legal and contractual obligations with third party contractors but desires to setup a mechanism to address the issue of unauthorized operators within the current allowable structures and applicable to the parties Central Offices;

WHEREAS, there have abounded unauthorized operators of public utility motor vehicles who have clandestinely operated in violation of the penal provisions of existing law, rendered

unregulated, unsafe or sub-standard service, put up unfair competition to legitimate operators, and deprived the Government of considerable amount of taxes and fees;

NOW THEREFORE, for and in consideration of the foregoing premises, the parties hereto have entered hereby agree and stipulate, as follows:

## **ARTICLE I DEFINITION OF TERMS**

**Section 1.** The defined terms used in this Agreement shall, unless the context otherwise requires, have the meanings specified in this Article I.

- 1.1 Colorum - any motor vehicle operated for public utility purposes without the benefit of a valid and existing special permit, provisional authority or franchise issued by the LTRFB.
- 1.2 Franchise Violation Database - a database to be created and managed by the LTRFB which shall contain the necessary information of reported apprehensions of colorum vehicles by all coordinating government agencies, offices and instrumentalities. The Franchise Violation Database shall act as the repository of reported colorum apprehensions and mismatch between the franchise confirmations issued by the LTRFB and the public utility vehicle registrations with the LTO.

## **ARTICLE II STATEMENT OF PURPOSE**

**Sec. 2.** The purpose of this Agreement is to provide for a regular system of reconciliation between the parties' databases to ensure that only motor vehicles of operators with valid franchise confirmations issued by the LTRFB are registered with the LTO as public utility vehicles and to create a Franchise Violation Database for proper monitoring of colorum vehicles.

## **ARTICLE III SCOPE OF RESPONSIBILITIES AND OBLIGATIONS**

The Parties' respective obligations under this Agreement are as follows:

**Sec. 3.** Establishment and Management of the Franchise Violation Database

**3.1.** LTRFB shall create and manage the Franchise Violation Database which shall contain the following information:

- 3.1.1 Operator/Owner of Motor Vehicle

- 3.1.2 Operator's/Owner's Tax Identification Number (TIN)
- 3.1.3 Business/Home address as reflected in the motor vehicle registration papers
- 3.1.4 Driver and License Number
- 3.1.5 Date, time and location of apprehension
- 3.1.6 Name of apprehending officer
- 3.1.7 Agency/Office of apprehending officer

**3.2.** LTO shall report to the LTFRB, for LTFRB's inclusion in its Franchise Violation Database, all apprehensions by LTO's enforcement personnel of colorum vehicles and include in its report all the necessary information required in items 3.1.1 to 3.1.7 above.

**Sec. 4.** Transmittal of monthly report of colorum apprehensions by enforcement personnel of other government agencies

**4.1.** LTO shall provide LTFRB with a monthly report of colorum vehicles apprehended by enforcement personnel of other government agencies and non-government organizations deputized by LTO, for inclusion in the Franchise Violation Database (see Appendix A).

**4.2.** The monthly report shall be transmitted officially within a period of \_\_ days from the close of the month by a duly authorized personnel in LTO's Management Information Division (LTO-MID) to a duly designated and authorized personnel in LTFRB's Management Information Division (LTFRB-MID) in a format to be agreed upon by the parties.

**4.3.** Transmission via e-mail and other duly recognized electronic transmittal procedures may be resorted depending on the technological availability and interconnectability of both agencies.

**Sec. 5.** Reconciliation of Motor Vehicle Registration with LTFRB's franchise records.

**5.1.** LTFRB shall receive from LTO on a monthly basis a list of all motor vehicles registered with the LTO as public utilities. Upon receipt of the list, LTFRB shall verify and reconcile with its records as to whether the motor vehicles on the LTO list have valid and existing franchises to operate as public utilities. Any motor vehicle found not covered by a valid and existing franchise shall be reported back by LTFRB to LTO for tagging and appropriate action.

**5.2.** LTFRB shall provide LTO with a summary of LTO-registered public utility vehicles without valid franchise confirmation (see Appendix B).

**5.3.** LTO shall provide LTFRB on a monthly basis a list of all motor vehicles registered by LTO as public utilities (see Appendix C). Upon receipt by LTO of LTFRB's result of reconciliation and list of motor vehicles not covered by a valid and existing franchise, LTO shall summon the registered owner of the motor vehicle in question to appear at the LTO office and show proof of a valid franchise granted to the registered owner by the LTFRB. Failure on the part of the



registered owner to present substantial evidence shall result in the revocation of the motor vehicle registration in the LTO.

## **Sec. 6. Freezing of Motor Vehicle Registration after Tagging by LTO-MID**

**6.1.** LTO shall implement tagging of the motor vehicle registration discovered under Sec. 5 above for purposes of freezing subsequent year's registration of the motor vehicles in question. Prior to renewal of the registration of the motor vehicles in question, LTO shall require the registered owner of the motor vehicles in question to secure a clearance from the LTFRB that subject motor vehicle has been cleared and deleted from the Franchise Violation Database. LTO shall only allow the renewal of the registration of the motor vehicle in question upon its receipt from LTFRB of the necessary clearance that subject motor vehicle had been cleared and deleted from the Franchise Violation Database.

**6.2.** LTFRB shall require the registered owner of the motor vehicles in question to present substantial documentary evidence to prove that the subject motor vehicle is covered by a valid and existing franchise to operate as a public utility.

**6.3.** Upon satisfactory presentation and submission of the necessary proof, LTFRB shall clear subject motor vehicle and delete the corresponding record from its Franchise Violation Database. LTFRB-MID shall electronically transmit to LTO-MID the necessary clearance in order to allow the renewal of the motor vehicle registration .

**6.4.** Failure by the registered owner to show satisfactory proof that subject motor vehicle is covered by a valid and existing franchise, shall result in the imposition of the applicable penalties under existing law and regulations. In the event that the registered owner desires to operate his motor vehicle as a public utility vehicle, LTFRB shall require the owner to apply for and secure a valid franchise in accordance with the procedures of the LTFRB; otherwise, the registered owner may be issued a clearance and allowed to proceed with the registration of the motor vehicle as a private vehicle. The LTFRB clearance to be electronically transmitted to LTO-MID shall clearly indicate that subject motor vehicle not covered by a valid and existing franchise may be registered only as a private vehicle.

## **Sec. 7. LTO Personnel Accountability**

**7.1.** LTO shall require all its personnel to enter their respective "User ID" prior to logging into the LTO system and before processing and encoding any transaction for the registration of a motor vehicle.

**7.2** Any personnel found to have processed the registration as a public utility of a motor vehicle not covered by a valid and existing franchise shall be issued a "SHOW CAUSE LETTER" and asked to explain in writing why no disciplinary action should be taken against the erring personnel. Habitual offenders shall be dealt with and prosecuted to the fullest extent of the law.

## **Sec. 8. Joint Undertaking: The LTO and LTFRB shall:**

- 8.1 Create an Inter-Agency Coordination Committee that shall oversee the smooth and proper implementation of the provisions of this Agreement.
- 8.2 Make available and designate qualified personnel who will be accountable in the proper implementation of the reconciliation mechanism for franchise confirmations.
- 8.3 Take disciplinary action their respective personnel found violating any of the provisions of this Agreement.
- 8.4 Promulgate the necessary memorandum circulars to disseminate and execute the provisions of this Agreement in their respective offices.

**ARTICLE IV  
ENCLOSURES/VARIANCES BETWEEN DOCUMENTS**

**Sec. 9.** The following enclosures are integral parts of this Agreement:

Appendix Letter:

“A”	LAND TRANSPORTATION OFFICE Franchise Violation Database Monthly Report for Submission to LTFRB For the period ended _____
“B”	LAND TRANSPORTATION FRANCHISING AND REGULATORY BOARD Summary of Reconciliation Findings’ LTO-Registered Public Utility Vehicles without Valid Franchise Confirmations for LTO Action For the period ended _____
“C”	LAND TRANSPORTATION OFFICE List of Motor Vehicles Registered as Public Utility Vehicles for Submission to LTFRB For the period ended _____

**Sec. 10.** If there be any contradiction or inconsistency between this Agreement and its enclosures, this Agreement shall take precedence and the parties undertake to take all reasonable steps to remove any such contradiction and inconsistency.

**Sec. 11.** The relevant enclosures hereto shall be kept up-to-date and amendments thereof shall be executed in writing by the parties as a result of agreed amendments to the Agreement.

**ARTICLE V  
COVERAGE AND EFFECTIVITY**

**Sec. 12.** The procedures for integration and coordination covered by this Agreement shall be observed and implemented on a “Pilot” basis to the Central Offices of the LTO and LTFRB, subject to availability of equipments and facilities as well as the development of the agencies’ respective information technology.

**ARTICLE VI  
MODIFICATIONS**

**Sec. 13.** The Parties may jointly agree, in writing, to modify this Agreement and to expand the implementation of its coverage to other than the Central Offices upon the improvement of their respective information technology resources and capabilities.

**For the Land Transportation Office: For the Land Transport Franchising and  
Regulatory Board:**

\_\_\_\_\_  
**REYNALDO I. BERROYA**  
Assistant Secretary

\_\_\_\_\_  
**THOMPSON C. LANTION**  
Chairman

**Noted by:**

**ANNELI R. LONTOC**  
Undersecretary, DOTC  
Land Transport Sector

**Appendix A**

LAND TRANSPORTATION OFFICE  
Franchise Violation Database Monthly Report for Submission to LTFRB  
For the period ended \_\_\_\_\_

MV Plate Number	MV Chassis Number	Operator/Owner of MV	Operator's/Owner's TIN	Operator's/Owner's Home/ Business Address	Driver and License Number	Date and Location of Apprehension	Name of Apprehending Officer	Agency of Apprehending Officer

**Appendix B**

LAND TRANSPORTATION FRANCHISING AND REGULATORY BOARD  
Summary of Reconciliation Findings'  
LTO-Registered Public Utility Vehicles without Valid Franchise  
Confirmations for LTO Action  
For the period ended \_\_\_\_\_

MV Plate Number	MV Chassis Number	Owner of MV	Owner's TIN	Owner's Home/ Business Address

**Appendix C**

LAND TRANSPORTATION OFFICE

List of Motor Vehicles Registered as Public Utility Vehicles for Submission to LTFRB

For the period ended \_\_\_\_\_

MV Plate Number	MV Chassis Number	Operator of MV	Operator's TIN	Operator's Business Address

**Attachment 3**

**IMPLEMENTING GUIDELINES  
ON  
ELECTRONIC INFORMATION INTERCHANGE  
BETWEEN  
THE BUREAU OF INTERNAL REVENUE  
AND  
THE LAND TRANSPORTATION FRANCHISING  
AND REGULATORY BOARD**

The Bureau of Internal Revenue (hereinafter BIR for brevity) and the Land Transportation Franchising and Regulatory Board (hereinafter LTFRB for brevity), hereby jointly promulgate these guidelines in the implementation of the Memorandum of Agreement entered into and between the parties on February 27, 2003 and in compliance with the provisions of Republic Act No. 8792, otherwise known as the “Electronic Commerce Act.”

- I. The Land Transportation Franchising and Regulatory Board (LTFRB) shall:
1. Provide and clearly identify a special window or desk including telephone lines / equipments for the BIR personnel assigned at the LTFRB Central Office for the purpose of verifying the authenticity of the ***Tax Clearance Certificate (TCL)*** issued by the Revenue District Office (RDO) having jurisdiction over the principal place of business of the applicant-operator.
  2. Inform and require all applicant-operators intending to transact business with the LTFRB Central Office involving New Application, Confirmation, and Extension of Franchise to operate as common carriers or transportation contractors to secure from their respective RDO the ***TCL***, which shall be a prerequisite for the processing of any franchise transaction with LTFRB.

The LTFRB Central Office receiving clerk shall only process new applications, confirmations and extensions of franchise of applicant-operators whose ***TCLs*** are duly authenticated by the assigned BIR revenue officer in the LTFRB Central Office.

3. Provide, through the LTFRB Management Information Division (MID), the BIR Information Systems Group (ISG) with an updated list of valid franchise case numbers as of November 30, 2006 (or any other latest available cut-off date), in electronic form, which shall contain at least the information listed below (Appendix A) no later than thirty (30) days from effectivity of this Implementing Guidelines:

- Franchise Case No.
- Taxpayer Identification Number (TIN) of Operator / Owner
- Name of Operator / Owner / Business Name
- Validity / Expiry Date (mm/dd/yyyy)
- Fleet size (No. of Units), when applicable
- Denomination
- Such other data which the parties may later deem to be necessary to establish a more efficient data-matching facility.

The list of valid franchise case numbers submitted to the BIR-ISG shall be updated by the LTFRB through the monthly submissions in electronic form of approved new franchise case numbers, with all the other data enumerated above.

The list of valid franchise case numbers shall also be updated by the LTFRB through the monthly submissions in electronic form of transport operators that have ceased operations and whose franchises have been cancelled containing the enumerated information in item 3 above plus the Date of Franchise Cancellation (mm/dd/yyyy) and / or Name of Transferee of said franchise (Appendix B).

The updated list of valid franchise numbers as of cut-off date and the monthly updates of approved new franchise case numbers shall be electronically transmitted by a duly authorized personnel from the LTFRB's MID to the BIR-ISG. The updated listings of data referred to in this section which are to be transmitted to BIR-ISG shall be done within a period of fifteen (15) days from the close of each month, by LTFRB's MID.

4. Furnish the BIR, through the BIR-ISG as data repository and maintainer but BIR-AITEID is the user, the following reports (in electronic form, via e-mail by a duly authorized personnel in LTFRB's MID to a duly designated and authorized personnel in the BIR-ISG) not later than the 15<sup>th</sup> day of each month:

- a. Monthly Franchise Information Summary Report, which shall contain the following information:

- \* Operator / Business TIN
- \* Operator Name / Business Name
- \* Reported Home / Business Address
- \* Reported Annual Sales
- \* Reported Annual Expenses
- \* Franchise Case No.
- \* Fleet Size
- \* Denomination



- b. Monthly Colorum Report, to be generated from the LTFRB's Franchise Violation Database, and which shall contain the following information:
  - Operator / Owner of the Motor Vehicle (MV)
  - Operator / Owner TIN
  - Home Business Address as indicated in the MV Registration
  - Date of Apprehension
5. Provide the BIR, upon request, copies of Annual Reports submitted to the LTFRB by the transport operators.

II. The Bureau of Internal Revenue (BIR) shall:

1. Provide the following procedures in the RDO and the BIR Special Desk in the LTFRB Central Office:

1.1 Procedure in the RDO:

- a. An authorized revenue officer in the RDO shall evaluate the following BIR documentary requirements to be submitted by the applicant-operator:

For New Applications:

- BIR Registration Certificate (BIR Form No. 2303)
- Proof of Payment of Annual Registration Fee (BIR Form No. 0605) for the current year

For Application for Confirmation and Extension of Franchise:

- BIR Registration Certificate (BIR Form No. 2303)
- Proof of Payment of Annual Registration Fee (BIR Form No. 0605) for the current year
- Quarterly VAT Returns (BIR Form No. 2550Q) or Monthly Percentage Tax Returns (BIR Form No. 2551M) filed for the immediately preceding four (4) quarters or twelve (12) months, whichever is applicable
- Income Tax Return (BIR Form No. 1701 or 1702) of the immediately preceding year together with the audited financial statements
- Proof of Payment of Documentary Stamp Tax (DST) due on the Annual Report submitted to the LTFRB
- Documents attesting to the purchase, or any mode of transfer, of motor vehicles used in the business plus proof of payment of the pertinent taxes (e.g. transfer taxes) accruing thereon.

- b. After finding the foregoing requirements in order, the RDO shall issue a **TCL** to the applicant-operator in a format to be designed by the BIR. In

case of any non-compliance by the applicant-operator with the reportorial requirements of the BIR, the applicant-operator shall be advised to file the necessary returns (e.g. quarterly VAT / percentage tax returns, income tax returns, etc.) to the RDO (for no payment return) or pay the basic tax and penalties, if any, to an Accredited Agent Bank.

c. Upon issuance of the *TCL*, the RDO shall immediately submit to the BIR-ISG for inclusion in the *TCL* database the following information:

- \* TCL Number
- \* Date of Issuance
- \* RDO Number
- \* Name of Applicant-Operator/Taxpayer

1.2. Procedure in the BIR Special Desk in the LTFRB Central Office:

a. The assigned revenue officer in the LTFRB Central Office, who shall be granted direct access to the *TCL* database, shall validate the authenticity of the *TCL* secured from the RDO and presented by the applicant-operator at the BIR special desk in the LTFRB Central Office.

b. Upon verification that the *TCL* presented by the applicant-operator is authentic and existing in the *TCL* database, the assigned revenue officer shall indicate on the face of the *TCL* the fact of verification of the same and the assigned revenue officer shall affix his signature (to affirm his verification) on the *TCL* presented by the applicant-operator and endorse the same to the LTFRB Central Office receiving clerk.

2. Create and manage a *TCL* Database, which shall be the repository of all current year's tax clearance certificates issued by all RDOs to applicant-operator's applying for confirmation or extension of franchise validity with the LTFRB. The *TCL* Database shall be established from the electronic submissions to be made by the RDOs to the BIR-ISG of the following information:

- TCL Number
- Date of Issuance
- RDO Number
- Name of Applicant-Operator/Taxpayer

3 Provide the necessary infrastructures and maintain all the necessary equipments and programs required for system linkage.

4. Assign / designate duly authorized revenue officers to man the special window or desk designated for the BIR in the LTFRB Central Office.
5. Request LTFRB for copies of Annual Reports submitted by transport operators. Compare and examine, through the BIR Assessment Service - AITEID, the financial data submitted by the applicant-operator with the LTFRB as against the submissions made by the applicant-operator with the BIR, and investigate operators included in the Monthly Colorum Report to identify potential tax leakages through under declaration and non-declaration of income.

III. The BIR and LTFRB shall:

1. Create an Inter-Agency Committee, the members of which shall be designated by the respective heads of office, which shall oversee the proper implementation of the provisions of the MOA and its implementing rules and regulations;
2. Take disciplinary action against their respective personnel, found violating any of the provisions of the MOA and its implementing guidelines;
3. Promulgate their respective memorandum orders to disseminate and execute the provisions of these Implementing Guidelines in their respective jurisdiction;
4. Extend assistance to all applicants to ensure the least inconvenience to them and to ensure the collection of the corresponding taxes, duties and fees.
5. Take such actions as may be necessary to ensure the effective implementation of the MOA and its implementing rules and regulations.

IV. The following enclosures are integral parts of this Agreement:

Appendix Letter:

- “A” LAND TRANSPORTATION FRANCHISING AND  
REGULATORY BOARD  
List of Valid Franchise Case Numbers  
As of November 30, 2006
- “B” LAND TRANSPORTATION FRANCHISING AND  
REGULATORY BOARD  
List of Cancelled / Transferred Franchises  
For the period ended \_\_\_\_\_

“C” LAND TRANSPORTATION FRANCHISING AND  
REGULATORY BOARD  
Franchise Violation Database Monthly Report for Submission to  
BIR  
For the period ended \_\_\_\_\_

**V. Confidentiality Obligation**

3. Each of the PARTIES, as Recipient, hereby agrees on behalf of itself and its representatives and officers that information provided to each other shall be treated with strict confidentiality and shall not be disclosed or made available to any person for any reason whatsoever, other than for the purpose of performing their respective mandates as government agencies, and then only to: (a) its representatives and officers; or (b) as provided below, during the duration of this MOA and even after its expiration or termination.
4. The above confidentiality restrictions shall not apply to the disclosure of information which is:
  - a. disclosed following written consent from the PARTY disclosing the information;
  - b. required by law or by any competent court, governmental or regulatory authority or securities exchange and on legislative hearings;
  - c. already in the public domain (other than as a result of disclosure by the Recipient or its representatives and officers in violation of this Agreement).

**VI. Effectivity and Modifications**

These Implementing Guidelines shall take effect upon signing and shall remain in effect until otherwise modified through an addendum mutually agreed, approved and duly signed by the parties hereto.

The Parties hereunto affix their signature this \_\_\_\_\_ day of \_\_\_\_\_, 2006 in Quezon City, Philippines.

**BUREAU OF INTERNAL REVENUE**

**LAND TRANSPORTATION  
FRANCHISING AND  
REGULATORY BOARD**

By:

By:

**JOSE MARIO C. BUÑAG**  
Commissioner

**THOMPSON LANTION**  
Chairperson

**Appendix A**

**LAND TRANSPORTATION FRANCHISING AND REGULATORY BOARD**

**List of Valid Franchise Case Numbers**

As of November 30, 2006

Franchise Case Number	Operator's Taxpayer Identification Number (TIN)	Name of Operator/Owner of MV	Validity/Expiry Date of Franchise	Fleet Size	Denomination

**Appendix B**

**LAND TRANSPORTATION FRANCHISING AND REGULATORY BOARD**

List of Cancelled/Transferred Franchises

For the period ended \_\_\_\_\_

Franchise Case Number	Operator's Taxpayer Identification Number (TIN)	Name of Operator/Owner of MV	Validity/Expiry Date of Franchise	Fleet Size	Denomination	Date of Franchise Cancellation	Name of Transferee

**Appendix C**


**LAND TRANSPORTATION FRANCHISING AND REGULATORY BOARD**

Franchise Violation Database Monthly Report for Submission to BIR


For the period ended \_\_\_\_\_

MV Plate Number	MV Chassis Number	Operator/Owner of MV	Operator's/Owner's TIN	Operator's/Owner's Home/ Business Address	Date and Location of Apprehension	Name of Apprehending Officer	Agency of Apprehending Officer

**ATTACHMENT 4**



**REPUBLIC OF THE PHILIPPINES**  
**DEPARTMENT OF TRANSPORTATION & COMMUNICATIONS**  
**LAND TRANSPORTATION OFFICE**  
 East Avenue, Quezon City  
 E-mail Address: ltombx@lto.gov.ph • Website: www.lto.gov.ph



**OFFICE ORDER NO. 151-2006**  
17 May 2006


In the best interest of the service and in line with the Process Reengineering of Motor Vehicle-Related Transaction (Progress Report) Project of the Asian Institute of Management (AIM), the LTO Study Group is hereby created to be composed of the following:

Chairman	:	Atty. Lina L. Estrada
Co-Chairman	:	Camilo T. Guarin
Vice Chairman	:	Florencia A Creus
Members	:	
Central Office	:	Grace R. Mempin Dolores M. Luarca Menelia C. Mortel Maribel T. Salazar Marie Jean Victorio Paquita dela Cruz Mercedita E. Gutierrez Lilia Q. Diego Myrna C. Cabrera Anacleto Corbeta
NCR	:	Mercy Jane Paras - Leynes Betty C. Diaz Luciano L. Caparas Joel A. Donato Edgardo C. Deveza Honorio S. Quiambao
Region III	:	Artemio Lazaro Redentor T. Reyes Carlito D. Calingo Antonio T. Paraan
Region IV	:	Sofronio M. Alvis Eugenio Diaz
Secretariat	:	Carmencita Herrera – Operations Division Melba DG. Lopez - Registration Section Nenette V. Se – Registration Section Renato Payumo – MID
Records Officers	:	Jossie M. Borja - Central Office Rachel B. Almada - NCR Judina Polon - R - IV Edwin B. Rosales - R - III

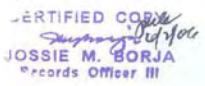
The LTO Study Group shall come up with an updated Motor Vehicle Registration System (MVRS) Manual of Operations which aims to standardize procedures in all LTO district offices to obviate confusion in the interpretation and implementation of policies;

Likewise, the Group shall come up with another publication of all LTO administrative issuances to update the 1996 edition.

For compliance,



**ANNELI R. LONTOC**  
Assistant Secretary





ATTACHMENT 5



REPUBLIC OF THE PHILIPPINES  
DEPARTMENT OF TRANSPORTATION & COMMUNICATIONS  
LAND TRANSPORTATION OFFICE  
East Avenue, Quezon City  
E-mail Address: ltombbox@lto.gov.ph • Website: www.lto.gov.ph



11/2/06

October 30, 2006

BRIEFING MEMO

FOR : The Assistant Secretary  
THRU : The Executive Director  
SUBJECT : Monitoring and Reporting Transaction Inefficiencies

One of the deliverables of the Tax Governance Project of LTO, LTFRB and the Asian Institute of Management (AIM) is the establishment of a process for monitoring issues that impact on vehicle registration transaction time with the aim of continually improving the Motor Vehicle Registration System (MVRS). Since the MVRS is integrated with DLS, LETAS, RCS and FAS, the implementation of this monitoring process shall result to the total improvement of the whole LTO business system. Further, this process shall also enable us determine the level of performance of our service providers, STRADCOM and AMPI, and improve our working relationship with them.

Resulting from a series of workshops with AIM consultants, the PMO is now respectfully submitting to you, for your approval, a documented process to monitor and report occurrences of delays in transaction processing, analyze data and formulate policies for improvement.

It is proposed that a two-week pilot test at selected sites in NCR, Region III and Region IV be conducted prior to nationwide implementation. A Memorandum to conduct the pilot test is hereby attached for your approval.

*Mempin*  
GRACE R. MEMPIN  
Chairman, PMO

*Approved!*  
*[Signature]*  
7/2/06



REPUBLIC OF THE PHILIPPINES  
DEPARTMENT OF TRANSPORTATION & COMMUNICATIONS  
**LAND TRANSPORTATION OFFICE**  
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October 30, 2006

MEMORANDUM

TO : The Regional Directors of NCR, Region III and Region IVA  
Chief of Operations Division, Central Office

SUBJECT : Monitoring and Reporting Transaction Inefficiencies

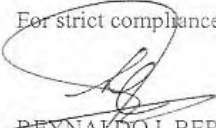
To institute continual improvement in the way we provide service to the public, factors that impact on transaction processing time should be properly identified, documented and reported for evaluation and policy formulation.

A monitoring process has been devised and shall be pilot-tested in your Region prior to nationwide implementation. The test period will be from November 13 to 24, 2006 in the following sites :

1. NCR Operations Division
2. PUVRC
3. Quezon City Licensing Center
4. Manila Licensing Center
5. Baliuag District Office
6. Malolos District Office
7. San Fernando Licensing Center
8. Region IV-A Operations Division
9. Lipa District Office
10. Central Office License Section; and
11. Central Office Registration Division.

You are hereby directed to monitor the testing and ensure that it is conducted as planned. The Project Monitoring Office (PMO) is directed to provide technical assistance to personnel in the test sites.

For strict compliance.

  
REYNALDO I. BERROYA  
Assistant Secretary



15-110501-14

**GUIDELINES AND PROCEDURES FOR MONITORING FACTORS  
AFFECTING TRANSACTION PROCESSING TIME**

At the District Office :

1. All personnel (evaluator, cashier, etc) involved in the processing of transactions using the computerized environment shall follow the procedure discussed below:
  - a.) The responsible LTO personnel shall record the occurrence of the problem in the Exception Slip (*Annex A*) and attach slip to the transaction. In the case of a system-related problem, a screenshot may also be attached. If the problem is not-transaction specific (e.g., offline or hardware error), indicate NOT APPLICABLE or NA in the spaces for plate number and transaction type details otherwise these must be filled-up.
  - b.) The responsible LTO personnel or Stradcom site support personnel shall resolve the case and shall record the time of resolution in the Exception Slip. Unresolved cases shall also be noted by indicating UNRESOLVED instead of the time of resolution.
  - a.) The District Office shall prepare and submit to the PMO a weekly and monthly Report on Transaction Delay (*Annex B*) duly approved by the District Office Head.
  
2. The following delay issues can be utilized to ensure uniformity in the filling up of the Exception Slip:
  - a.) System-related limitations
    - System slowdown
    - Offline
    - Hanging
    - Program errors (e.g., close of application, null error, etc)
    - Hardware
  
  - b.) Procedural
    - Rejected transactions due to incorrect evaluation of requirements (detected by Approving Officer)
    - Pending transaction due to problems with previous registration
    - Pending transaction because of failure of the LTO personnel to carry out required steps (e.g., backend scanning, encoding of sticker/plate release, uploading of accountable items, updating/closing of LETAS settled transaction, no sticker/plate supplied, etc.)
    - Incomplete details in the MVIR by the MV Inspector causing the rejection of transaction
    - Delay resulting from the special treatment and insertion of other transactions

c.) Customer

- Incomplete documentary requirements
- Unsettled problems (e.g. LETAS)
- Insufficient amount of money to pay required fees
- Absence of registrant when called

At the Central Office PMO :

1. The PMO shall summarize and analyze reports from the District Offices.
3. Based on the frequency and gravity of cases, the PMO shall recommend appropriate policies to the PMC.

Annex A

<b>EXCEPTION SLIP</b>		
DATE	TIME	
WORK STEP		
PLATE NUMBER		
TRANSACTION TYPE (PLEASE CHECK):		
<input type="checkbox"/> New	<input type="checkbox"/> Miscellaneous	
<input type="checkbox"/> Renewal	<input type="checkbox"/> Others _____	
NATURE OF DELAY (PLEASE CHECK):		
<u>Procedural</u>	<u>System Related</u>	<u>Customer</u>
<input type="checkbox"/> Pending from previous transaction	<input type="checkbox"/> System slowdown	<input type="checkbox"/> Incomplete documentary requirements
<input type="checkbox"/> Incorrect evaluation	<input type="checkbox"/> Hanging	<input type="checkbox"/> Unsettled problems (e.g., LETAS)
<input type="checkbox"/> Others _____	<input type="checkbox"/> Program errors	<input type="checkbox"/> Others _____
_____	<input type="checkbox"/> Offline	
	<input type="checkbox"/> Hardware	
	<input type="checkbox"/> Others: _____	
	_____	
	_____	
TIME RESOLVED		

Annex B

DEPARTMENT OF TRANSPORTATION & COMMUNICATIONS  
LAND TRANSPORTATION OFFICE

Report on Transaction Delay  
For the Period \_\_\_\_\_ to \_\_\_\_\_, 200\_

DISTRICT OFFICE :

Cause of transaction delay	Number of occurrences	Number of resolved cases	Average resolution time

Prepared by: \_\_\_\_\_  
Signature over printed Name \_\_\_\_\_  
Position \_\_\_\_\_

Approved: \_\_\_\_\_  
Signature over printed Name \_\_\_\_\_  
District Office Head \_\_\_\_\_