

# The Philippines introduces reward mechanism for informants

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The Bureau of Customs (BOC) has introduced a new reward mechanism for informants and/or whistle-blowers who provide information that leads to collection of additional revenue for the BOC. The intention of the reward program is to encourage public cooperation in the effort to reduce smuggling and tax avoidance activities.

The reward mechanism applies to all goods that are still under BOC custody, goods that have undergone customs clearance, and goods that did not pass customs formalities (i.e. smuggled goods). Such information may be related to smuggling, incorrect goods declaration, and/or supporting documents that results in avoidance or underpayment of import taxes. Cash rewards given to informants will be equivalent to 20% of the additional revenue (import taxes and penalties/fines) collected by the BOC. In the event of smuggling, the reward will be 20% of the proceeds from the sale of smuggled and confiscated goods.

As penalties for customs offenses can result in fines ranging from 125% to 600% of the assessment or underpaid import taxes, plus a 20% annual interest, the reward can be significant.

The new mechanism will protect the identity of the informants or whistle-blowers, except when required during judicial proceedings. Excluded in the reward program are BOC and other government personnel who are performing the functions of enforcement, or assessment, as well as those who belong to departments that are responsible for monitoring and post-clearance audit activities. Excluded are also those who were involved in the illegal activities.

## Our take

Based on our experience, these types of reward programs tend to drastically increase overall revenue collection and the number of audits and investigations conducted by the local customs authorities. As employees and third party-service providers who have insight to a company's operation will now have an incentive to act as an informant to the BOC, the risk exposure for many companies will considerably increase. The typical compliance issues that we expect will trigger more customs investigations are related to transfer pricing adjustments, royalty payments, preferential duty claims, and compliance with different types of customs schemes.

To reduce risk, companies should be more proactive in ensuring they are in-control of general customs compliance. This can be achieved by implementing effective standard operating procedures and conducting a customs compliance review/health check to identify any compliance gaps or lapses early and implement corrective measures.

You may access the full version of the order through the Bureau of Customs website.

## Let's talk

If you would like further advice in relation to the topic above or a deeper discussion of how this issue might affect your business please contact:

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