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RURAL BANK OF LILOAN
(CEBU), INC.,
Petitioner,

- versus - C.T.A. CASE NO. 2221

COMMISSIONER OF INTERNAL
REVENUE,
Respondent.
x - - - - - - - - - - - - - x

12/4/74

D E C I S I O N

This is a judicial claim for the refund of the total sum of ₱3,565.00, representing deficiency income tax paid for the taxable year 1968 under Official Receipts Nos. 0578026 and 0578123, dated April 15 and July 15, 1969.

The facts of the case are embodied in the "Stipulation of Facts" filed by the parties on September 27, 1974, which reads as follows:

> "1. That petitioner is a corporation organized and constitued under Rep. Act 720, as amended, and Act 1459, and subject to supervision by the Central Bank under the provisions of Rep. Acts 720, 265 and 337, as amended;
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> "2. That petitioner was assessed by respondent for corporate income tax for the period July 1, 1968 to December 31, 1968, and paid for said tax as follows:

Amount Paid	Date Paid	Place of Payment	O.R. No.
₱1,783.00	April 15'69	Liloan,Cebu	578026
₱1,782.00	July 15,'69	Liloan,Cebu	578123

> "3. That petitioner, on July 25, 1970, wrote respondent for the refund

of said payment;

"4. That respondent received said letter of refund which he acknowledged in his denial reply dated December 14, 1970;

"5. That petitioner received only on February 10, 1971, the respondent's denial letter of December 10, 1971, said date of receipt being evidenced by the postal rubber stamp on the registered envelop containing said denial letter;

"6. That herein petition was filed on March 3, 1971, within the reglamentary period fixed by law;

"7. That petitioner uses the calendar method (January 1 to December 31 of any year) in its accounting system, as provided for by Sections 242 and 243, of the Rules and Regulations Governing Rural Banks, promulgated by the Monetary Board of the Central Bank as Res. No. 865 on May 19, 1969, and published in the September 11, 1967 issue of the Official Gazette, on page 7995 et seq."

The issue raised is whether or not petitioner is entitled to the refund of the sum of ₱3,565.00 which it paid as deficiency income tax on income earned for the period from July 1, 1968 to December 31, 1968.

Resolving a similar question in the case of Rural Bank of Camiling, Inc. v. Commissioner of Internal Revenue, C.T.A. Case No. 2041, March 1, 1974,[1] this Court held:

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[1] Certiorari denied in G.R. L-38476 dated May 10, 1974.

Petitioner is a corporation doing business as a rural bank in Camiling, Tarlac, pursuant to Republic Act No. 720, as amended. Under Section 14 of said Act, it was exempt from all taxes, charges, and fees of whatever nature and description. However, under paragraph (d) of Section 24 of the National Internal Revenue Code, as amended by Republic Act No. 5431, it is provided that "all corporate taxpayers not specifically exempt under Section 24(c)(1) and 27 of this Code shall pay the rates provided in this Section," the provisions of existing special or general laws to the contrary notwithstanding. Pursuant to this amendment, respondent has required petitioner to pay the amount mentioned above, but the latter has resisted the assessment on the ground that Section 24(d) of the Revenue Code, as amended by Republic Act No. 5431, did not have the effect of repealing its exemption under Republic Act No. 720, as amended. It is also alleged that, assuming that its exemption has been repealed, it can not be held subject to income tax beginning July 1, 1968, in view of Section 10 of Republic Act No. 5431, which provides:

> "Sec. 10. The provisions of this Act shall apply to income for taxable years beginning after June 30, 1968."

It appears that petitioner is keeping its books of account on the calendar year basis. Its "taxable year" for purposes of the Income Tax Law is the period from January 1 to December 31, each year. Therefore, the beginning of its taxable year after June 30, 1968, is January 1, 1969, and not July 1, 1968. The decision of respondent holding that the provisions of Republic Act No. 5431 are applicable to petitioner effective July 1, 1968, is obviously erroneous. As clearly and correctly explained by respondent himself:

"The term 'taxable year", in accounting and income taxation had indeed acquired the accepted meaning as an accounting period of twelve months beginning January 1 and ending December 31 which is termed a calendar year or an accounting period of twelve months ending on the last day of any month other than December which (is) termed a fiscal year. (Section 84(o) and (p), Tax Code). Since R. A. No. 5431 is an amendment to the corporate income tax law, this Office believes that Congress used the term 'taxable year' in the light of its meaning as defined by the Tax Code itself.

"After June 30, 1968, the first and next taxable years are the fiscal years beginning July 1, 1968 - December 1, 1968 and the calendar year beginning January 1, 1969. Therefore, when Congress stated in Section 10 of R. A. No. 5431 that 'The Provisions of this Act shall apply to income for taxable years beginning after June 30, 1968' it is indubitable that it fixed the reckoning period of the increased rates of corporate income tax to income earned for fiscal periods beginning July 1, 1968 - December 1, 1968 and for the calendar period beginning January 1, 1969, these periods being the first and next taxable years beginning after June 30, 1968.

"In view of the foregoing as well as of the now well entrenched doctrine in jurisprudence that terms used in statutes should be understood in their ordinary meaning unless the context provides otherwise, it is the opinion of this Office as it hereby holds that as regards calendar year corporations the increased rates of corporate income tax prescribed by R. A. No. 5431 shall

> apply on income earned by them only beginning January 1, 1969." (B. I. R. ruling addressed to the Tax Service of the Philippines, Inc. dated Nov. 14, 1969; see also the Manila Times Publishing Co., Inc. v. Commissioner of Int. Rev., C. T. A. No. 2263, Dec. 17, 1973.)
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> Respondent has reversed himself and now wants this Court to agree with him that by Section 10 of Republic Act No. 5431, the law has intended that the provisions of said Act should apply to income earned from July 1, 1968 regardless of the taxpayers' accounting period. The theory of respondent has been rejected by us in our decision in the Manila Times Publishing Co., Inc. v. Commissioner of Internal Revenue, C. T. A. No. 2253, December 17, 1973, involving the same issue, and we feel not called upon to make further elaboration on the matter.
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> In view of our opinion on the effectivity clause of Republic Act No. 5431, we find it unnecessary to pass upon the issue of whether or not said Act repealed the exemption from taxation of petitioner under Republic Act No. 720, as amended. At any rate, the exemption from taxation of rural banks has apparently been restored by Republic Act No. 5939, assuming that Republic Act No. 5431 repealed the prior exemption.

Similar holdings were equally reached by us in other rural bank cases. (Rural Bank of Talisay, (Cebu) Inc. vs. Comm. of Int. Rev.,

C. T. A. No. 2250, Sept. 24, 1974; Rural Bank of Sariaya, Inc. vs. Comm. of Int. Rev., C. T. A. No. 2068, Sept. 24, 1974.)

WHEREFORE, respondent is hereby ordered to refund to petitioner the sum of ₱3,565.00 as erroneously paid deficiency income tax for 1968. No costs.

SO ORDERED.

Quezon City, December 4, 1974.

ROMAN M. UMALI
Presiding Judge

WE CONCUR:

ESTANISLAO R. ALVAREZ
Associate Judge

RAMON L. AVANCEÑA
Associate Judge

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