REPUBLIC OF THE PHILIPPINES
COURT OF TAX APPEALS
QUEZON CITY

ZAMBOANGA WOOD PRODUCTS,
INC.,
Petitioner,

versus

C.T.A. CASE NO. 2053

COMMISSIONER OF INTERNAL
REVENUE,
Respondent.

6/3/74

x - - - - - - - - - - - x

D E C I S I O N

Petitioner, a corporation which is keeping its books and filing its income tax returns on the calendar year basis, filed its income tax return for the year 1968 on April 11, 1969 and paid the amount of ₱650,375.50, representing the first installment. The second installment of ₱650,375.50 was paid on July 14 and 15, 1969. The income tax was computed by petitioner on the basis of the rates prevailing prior to the effectivity of Republic Act No. 5431 which increased the rates from 22% on the first ₱100,000 net income to 25%, and from 30% to 35% on the net income in excess of ₱100,000. Respondent, however, believes that the new rates of corporate income tax as provided in Republic Act No. 5431 became effective on July 1, 1968, hence, an assessment was made against petitioner for deficiency income tax for the period from July 1 to December 31, 1968. As admitted by counsel for respondent, the amount of the deficiency income tax, plus interest, would be ₱108,603.31, if the interpretation of respondent as to the date of effectivity of Republic Act No. 5431, as applied to petitioner, is correct.

The assessment against petitioner having been duly protested by it and denied by respondent, the former has appealed. The only issue presented for our consideration relates to the date of effectivity of Republic Act No. 5431 as applied to petitioner.

Section 10 of Republic Act No. 5431 provides:

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

It is admitted that petitioner is keeping its books and filing its income tax returns on the calendar year basis. Therefore, its "taxable year" for purposes of the Income Tax Law is the period from January 1 to December 31 each year. It follows that 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.)

Respondent reversed his previous rulings 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 taxpayer's 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. 2263, Dec. 17, 1973[1] (cert. denied in G.R. No. L-38154, May 10, 1974), involving the same issue, and we feel it unnecessary to make further elaboration on the matter.

WHEREFORE, in line with the decision in the case of The Manila Times Publishing Co., Inc., cited above, the decision appealed from is hereby reversed. No pronouncement as to costs.

SO ORDERED.

Quezon City, June 3, 1974.

ROMAN M. UMALI
Presiding Judge

WE CONCUR:

ESTANISLAO R. ALVAREZ
Associate Judge

RAMON L. AVANCEÑA
Associate Judge

[1]See also Rural Bank of Camiling, Inc. v. Commissioner of Int. Rev., C.T.A. No. 2041, March 1, 1974, cert. denied in G.R. No. L-38476, May 10, 1974.