MASANTOL RURAL BANK, INC.,
Petitioner,

versus

C.T.A. CASE NO. 2162

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

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

11/29/74

D E C I S I O N

Petitioner is seeking refund of the sum of ₱9,472.32, representing deficiency income tax paid by it for the taxable year 1968 under Official Receipt No. 1602849, dated May 15, 1969.

The facts of this case are embodied in the Stipulation of Facts filed by the parties on November 14, 1974, reading as follows:

> That Petitioner is a corporation organized and constituted 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;
>
> 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.
₱9,472.32	May 15, 1969	Quezon City	1602849

> 3. That Petitioner, on October 29, 1969, wrote Respondent for the refund of said payment;

4. That Respondent received said letter of refund thru its Income Tax Division on October 30, 1969, as indicated by a rubber stamp on the face of a duplicate of Petitioner's letter;

5. That Petitioner, on July 10, 1970, received a letter dated June 9, 1970 but mailed by Respondent on July 2, 1970 (as appearing on the face of said letter) informing said Petitioner of the denial of its refund request;

6. That herein Petition was filed on August 7, 1970 within the reglementary 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.

Petitioner claims that its exemption from taxation under its charter (Republic Act No. 720, as amended) has not been repealed by Section 1 of Republic Act No. 5431. Even assuming that its exemption was repealed, it is still exempt from income tax for the period from July 1 to December 31, 1968 in view of Section 10 of Republic Act No. 5431 which provides that the provisions of said Act "shall apply to income for taxable years beginning after June 30, 1968."

In the case of the Rural Bank of Camiling, Inc. v. Commissioner of Internal Revenue, CTA Case No. 2041, promulgated on March 1, 1974 (cert. denied in G.R. No. L-38476, May 10, 1974), this Court held:

> 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. (See also Rural Bank of Los Baños v. Commissioner of Internal Revenue, CTA Case No. 2231, November 12, 1974, and cases cited therein.)

In view of our opinion that rural banks are not subject to income tax on their income prior to December 31, 1968, pursuant to Section 10 of Republic Act No. 5431, we find it unnecessary to pass upon the issue 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.

WHEREFORE, respondent is hereby ordered to refund to petitioner the sum of ₱9,472.32 which was erroneously paid by the latter as deficiency income tax for 1968. No costs.

SO ORDERED.

Quezon City, November 29, 1974.

ROMAN M. UMALI
Presiding Judge

WE CONCUR:

ESTANISLAO R. ALVAREZ
Associate Judge

RAMON L. AVANCEÑA
Associate Judge