RURAL BANK OF CAMILING, INC.,
Petitioner,

- versus -                C.T.A. CASE NO. 2041

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

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DECISION

Petitioner has appealed from the decision of respondent holding it liable for deficiency income tax and interest in the amount of ₱5,535.52, plus a compromise penalty of ₱30.00, or a total of ₱5,565.52, covering the period from July 1 to December 31, 1968.

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

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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 It is also alleged that, assuming that its exemption has been repealed, it can not be held subject to income tax beginning July 1, 1968, in view of Section 10 of Republic Act No. 5431, which provides: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.
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> "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

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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 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 Int. Rev., C.T.A. No. 2263, Dec. 17, 1973, involving the same issue, and we feel not called upon to make further elaboration on the matter.

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.

IN VIEW OF THE FOREGOING, the decision appealed from is

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hereby reversed.

SO ORDERED.

Quezon City, March 1, 1974.

ROMAN M. UMALI
Presiding Judge

WE CONCUR:

ESTANISLAO R. ALVAREZ
Associate Judge

RAMON L. AVANCEÑA
Associate Judge