



Bangko Sentral ng Pilipinas

OFFICE OF THE DEPUTY GOVERNOR SUPERVISION AND EXAMINATION SECTOR

CIRCULAR LETTER Series of 2003

TO: ALL RURAL AND COOPERATIVE BANKS

For your information and guidance, quoted hereunder is the opinion of BIR Deputy Commissioner (Legal and Inspection Group) Jose Mario C. Buñag dated August 12, 2003 clarifying whether or not "Bills Payables" in the books of rural banks are considered as "Deposit Substitutes" as it is defined in the Tax Code of 1997.

"In reply, please be informed that Section 22(Y) of the Tax Code of 1997 provides that:

(Y) The term 'deposit substitutes' shall mean an alternative form of obtaining funds from the public (the term 'public' means borrowing from twenty [20] or more individual or corporate lenders at any one time), other than deposits, through the issuance, endorsement, or acceptance of debt instruments for the borrower's own account, for the purpose of relending or purchasing of receivables and other obligations, or financing their own needs or the needs of their agent or dealer. x x x x x x

"Revenue Regulations (RR) No. 8-84 specifically identified the following borrowings as deposit substitutes:

x x x

x x x

x x x

- e) All borrowings of thrift and rural banks through the credit facilities of the Central Bank of the Philippines, Philippine National Bank, Development Bank of the Philippines, Government Service Insurance System, evidence by deposit substitutes instruments.*

"Please note that the foregoing enumeration of what constitutes borrowings was made in line with the previous definition of deposit substitutes in the Tax Code of 1997. In the old Tax Code, there was no qualification as to what the term 'public' constitutes. Thus, under the above

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enumeration, the obligations of rural banks arising from availments of rediscounting facilities and other borrowings from the BSP, will be considered as deposit substitutes. However, with the qualification in the Tax Code of 1997 that the term 'public' means borrowing from twenty (20) or more individual or corporate lenders at any one time, it is clear that the obligations of the rural banks to BSP, which are entered in their books as 'Bills Payable-BSP,' do not presently fall under the category of deposit substitutes. In contrast, the 'Bills Payable-Deposit Substitutes' account in the books of commercial banks and expanded commercial banks refer to obligations resulting from all types of money market borrowings of such banks, hence, clearly public in nature and rightfully considered as deposit substitutes.

"This clarifies the characterization of the term 'Bills Payables' as used by rural banks. "


ALBERTO V. REYES
Deputy Governor

September 17 2003

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