



BANGKO SENTRAL NG PILIPINAS

**OFFICE OF THE DEPUTY GOVERNOR
SUPERVISION AND EXAMINATION SECTOR**

CIRCULAR LETTER NO. CL - 2017 - 079

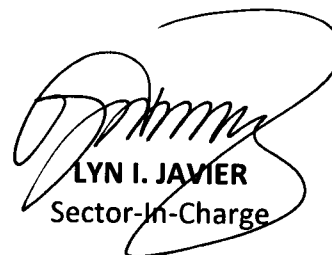
To : All BSP-Supervised Financial Institutions

**Subject : Department of Finance Local Finance Circular No. 2-07
Dated 26 February 2007 on the Imposition of Local Business Tax**

All BSP-supervised financial institutions are reminded of the provisions of Local Finance Circular (LFC) No. 2-07 dated 26 February 2007, amending LFC No. 1-93 dated 16 June 2003, issued by the Department of Finance, prescribing the guidelines governing the imposition of local business tax on banks and other banking institutions by municipalities and cities pursuant to Sections 143(f) and 151 of the Local Government Code.

A copy of LFC No. 2-07 is hereto attached for reference.

For information and guidance.


LYN I. JAVIER
Sector-In-Charge

27 December 2017



Republic of the Philippines
DEPARTMENT OF FINANCE
Ruzas Boulevard Corner Pablo Ocampo, Sr. Street
Manila 1004

LOCAL FINANCE CIRCULAR No. 2-07
February 26, 2007

SUBJECT : AMENDING SECTIONS 2 AND 5 OF LOCAL FINANCE CIRCULAR NO. 1-93 DATED JUNE 16, 1993 PRESCRIBING THE GUIDELINES GOVERNING THE POWER OF MUNICIPALITIES AND CITIES TO IMPOSE A BUSINESS TAX ON BANKS AND OTHER BANKING INSTITUTIONS PURSUANT TO SECTIONS 143(f), 150 AND 151 OF REPUBLIC ACT NO. 7160, OTHERWISE KNOWN AS THE LOCAL GOVERNMENT CODE OF 1991, AND ITS IMPLEMENTING RULES AND REGULATIONS (IRR).

TO : ALL REGIONAL DIRECTORS, BUREAU OF LOCAL GOVERNMENT FINANCE; TREASURERS OF METROPOLITAN MANILA; PROVINCIAL, CITY AND MUNICIPAL TREASURERS; AND OTHERS CONCERNED.

Pursuant to the provisions of Sections 143(f), 150 and 151 of Republic Act No. 7160, otherwise known as the Local Government Code of 1991 (LGC), as implemented by Articles 232(f), 243 and 237 of the Implementing Rules and Regulations (IRR), municipalities and cities may impose taxes on businesses, including banks and banking institutions.

Accordingly, the following guidelines are hereby prescribed in accordance with Article 287 of IRR, to ensure the proper and effective exercise by cities and municipalities of their taxing powers under the LGC, as implemented under Rule XXX of the IRR, for guidance and compliance of all concerned.

Section 1. *Coverage.* - (a) As used herein, the term "banks or banking institutions" shall refer to persons or entities engaged in the lending of funds obtained from the public through the receipt of deposits or the sale of bonds, securities or obligations of any kind and all entities regularly conducting such operations. The terms "banks" and "banking institutions" are synonymous and interchangeable.

For purposes of this Circular, banks shall be classified as follows:

- (1) Commercial banks;
- (2) Thrift banks composed of -
 - (i) Savings and Mortgage banks;
 - (ii) Stock savings and loan associations;
 - (iii) Private development banks.
- (3) Regional unit banks consisting of rural banks;
- (4) Specialized and unique Government banks like the Development Bank of the Philippines, which are governed by their respective charters;
- (5) Other classes of banks as may be authorized by the Monetary Board of the Central Bank of the Philippines (*Bangko Sentral ng Pilipinas*); and
- (6) Branches of the above-cited banks which have been authorized to be established nationwide by the Monetary Board of the *Bangko Sentral ng Pilipinas* (BSP).

Banking institutions include the following:

- (1) Entities regularly engaged in the lending of funds or purchasing of receivables of other obligations with funds obtained from the public through the issuance, endorsement or acceptance of debt instruments of any kind for their own account, or through the issuances of certificates of assignments or similar instruments with recourse, trust certificates, or of reproaches agreements, whether any of these means of obtaining funds from the public is done on a regular basis or only occasionally;
- (2) Entities regularly engaged in the lending of funds which receive deposits only occasionally; and

- (3) Trust companies, building and loan associations, non-stock savings and loan associations.

(b) **Head Office** - shall refer to the main office of the banking institution indicated in the pertinent documents submitted to the Securities and Exchange Commission (SEC) and to other appropriate agencies; the city or municipality specifically mentioned in the Articles of Incorporation and other official registration papers as being the official address of said "Head Office" shall be considered as the site thereof.

(c) **Branch** - a fixed place in a locality established as a branch of a banking institution, as authorized by the Monetary Board of the BSP. However, a regional or extension offices of banks and banking institutions shall not be considered as a branch.

Section 2. Tax on the Gross Receipts of Banks and Banking Institutions. - (a) The tax on banks and banking institutions may be levied on their gross receipts for the preceding calendar year, as follows:

- (1) By municipalities, at a rate not exceeding fifty percent (50%) of one percent (1%) of the gross receipts for the preceding calendar year; and
- (2) By cities including municipalities within the Metropolitan Manila area, at a rate not exceeding seventy-five percent (75%) of one percent (1%) of the gross receipts for the preceding calendar year.

(b) For this purpose, gross receipts shall only include the following:

- (1) Interest from loans and discounts – this represents interest earned and actually collected on loans and discounts. The following is a breakdown:
 - (i) Discounts earned and actually collected in advance on bills discounted;
 - (ii) Interest earned and actually collected on demand loan;

- (iii) Interest earned and actually collected on time loans, including the earned portions of interest collected in advance;
- (iv) Interest earned and actually collected on mortgage contracts receivables;
- (2) Interest earned and actually collected on interbank loans.
- (3) Rental of property - this represents the following rental income:
 - (i) Earned portion of rental collected in advance from lessees of safe deposit boxes;
 - (ii) Rental earned and actually collected from lessees on bank premises and equipment.
- (4) Income earned and actually collected from acquired assets.
- (5) Income from sale or exchange of assets and property.
- (6) Cash dividends earned and received on equity investments.
- (7) Bank commissions from lending activities.
- (8) Income component of rentals from financial leasing.

At the time of the annual payment of the tax due, the Head Office or branch of a bank shall submit to the LGU concerned a notarized Joint Statement of Annual Income [Schedule of Annual Income] for the preceding calendar year, in accordance with a sample form hereto attached as "Annex A" which shall be signed by a designated Officer of the Head Office and by the Branch Manager."

(c) All other income and receipts of banks and banking institutions not otherwise enumerated above shall be excluded from the taxing authority of the LGU concerned, such as:

- (1) Interest earned under the expanded foreign currency deposit system.
- (2) Interest accumulated by lending institutions on mortgages insured under Republic Act No. 580, as amended, otherwise known as Home Financing Act.
- (3) Receipts from filing fees, service and other administrative charges.

Section 3. *Non-separability of Banking Business.* - Activities which are inherent, related, necessary or incidental to the banking business shall be treated as one business activity subject to the same tax thereon, which shall be computed on the basis of the combined gross receipts of all said banking activities, as defined above.

In view thereof, the provisions of Article 242 of the IRR requiring a person or entity to get a separate mayor's permit for each business activity shall not apply to the banking activities, as defined above.

Section 4. *Procedures for the Enactment of Tax Ordinances.* - (a) The tax on banks and banking institutions as provided herein may be imposed by a city or municipality only through an appropriate ordinance enacted by the *Sangguniang Panlungsod* or *Sangguniang Bayan*, as the case may be. Such ordinance shall be enacted and approved in accordance with Articles 107, 108, 275 and 276 of the IRR.

(b) Pursuant to the procedures on the conduct of public hearings as prescribed in Article 276(b) of the IRR, the *Sanggunians* concerned shall cause the sending of written notices of public hearings for proposed ordinances to the branch manager or the highest officer of the Head Office of affected banks and banking institutions within their territorial jurisdictions.

(c) Any tax ordinance which does not comply with the above provisions shall be deemed null and void. Enforcement of such ordinance shall be a ground for disciplinary action against the officials or employees responsible therefor as provided for in Article 280 of the IRR.

Section 5. *Situs of the Tax*. - For purposes of collection of the tax, the following shall apply - (a) All transactions filed with or negotiated in the branch shall be recorded in said branch and the gross receipts derived from said transactions shall be taxable by the city or municipality where such branch is located. This rule shall be applied to:

- (1) transactions negotiated with and approved by the branch manger under his own authority; or
- (2) transactions filed and negotiated in the branch but being beyond the approving authority of the branch manager, are forwarded to the Head Office for final approval.
- (3) *transaction where the stated address in the loan application of the borrower is the city or municipality where the Bank has a branch, in which case the Head Office upon approval of the loan shall credit the transaction to the Bank Branch.*

(b) The gross receipts derived from transactions made by the Head Office, except gross receipts recorded in the branches, shall be taxable by the city or municipality where said Head Office is located.

(c) In case there is a transfer or relocation of the Head Office or of any branch to another city or municipality, the bank shall give due notice of such transfer or relocation to the chief executives of the cities or municipalities concerned within fifteen (15) days after such transfer or relocation is effected.

Section 6. *Time of Payment*. - The tax on banks due and accruing to the LGUs shall be payable within the first twenty (20) days of January or of each subsequent quarter, as the case may be, unless otherwise fixed in the corresponding local tax ordinance.

Section 7. *Examination of Books of Accounts and Pertinent Records*. - (a) The Treasurer of the LGU concerned or through any of his deputies duly authorized in writing may examine the books of accounts and other pertinent records of banks in order to ascertain, assess, and collect the correct amount of tax due.

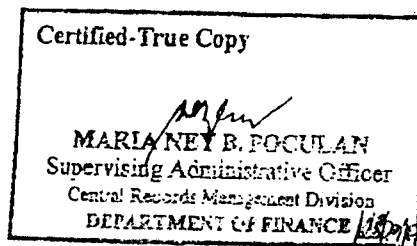
(b) The examination shall be made during regular office hours not oftener than once a year for every tax period, which shall be limited to verifying the summary of transactions contained in the prescribed form (see Annex "A") submitted by the bank upon which the declaration of gross receipts for the preceding calendar year has been based and the tax paid thereon. Such examination shall be certified by the examining official, which certification shall be made of record in the books of accounts of the bank examined.

Section 8. *Repealing Clause.* - All rules, regulations, orders, and/or circulars which are contrary to, or inconsistent with, the provisions of this Circular are hereby repealed or modified accordingly.

Section 9. *Effectivity.* - This Circular shall take effect immediately.

The Regional Directors of the Bureau of Local Government Finance and District Treasurers of Metropolitan Manila Area are hereby instructed to disseminate the contents of this Circular to all Provincial, City and Municipal Treasurers within their respective jurisdictions for their information and guidance.


MARGARITO B. TEVES
Secretary
004219



JOINT STATEMENT OF ANNUAL INCOME
SUBJECT TO GROSS RECEIPTS TAX
PURSUANT TO SECTION 143 OF
THE LOCAL GOVERNMENT CODE
For the Year Ended
Date
(In Thousand Pesos)

ACCOUNTS	REC. NO.	AMOUNT
A. INTEREST INCOME		
1) Interbank Loans Receivables		
2) Loans and Discounts		
3) Agrarian Reforms/Other Agricultural Credit Loans		
4) Bills Purchased		
5) Import and Domestic Bills Under LC & or TR		
6) Past Due Items/Items in Litigations		
B. BANK COMMISSION-LENDING ACTIVITIES		
C. EXTRAORDINARY CREDITS/CHARGES		
1) Income From Assets Acquired		
2) Profits/(Losses) from Assets Sold/Exchange		
3) Dividends-Equity Investment		
D. RENT INCOME		
1) Safe Deposit Boxes		
2) Bank Premises and Equipment		
E. INTEREST INCOME IN FINANCIAL LEASING		
F. TOTAL INCOME SUBJECT TO GRT (A+B+C+D+E)		
G. TAX DUE (_____ % OF F)		
H. QUARTERLY AMOUNT DUE (G Dividend by 4)		

Note: This include interest income on demand loans, time loans, discounts, earned and mortgage contract receivables as defined in Central Bank Manual of Accounts for Commercial Bank only.

We hereby certify that this Joint Statement of Annual Income is true and correct.

Signed at _____, this _____ day of _____, 2007

Sgd (Designated Officer of the Head Office)

Sgd Branch Manager