REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE
Quezon City

Section 27 (D) (5) of the Tax Code of 1997, as amended
BIR Ruling No. OT-0371-2020
OT- 458 - 2021
DEC 13 2021

EAST ASIA INTEGRATED LIVESTOCK, INC.
Suite 202, Golden Rock Building
168 Salcedo St., Legaspi Village
Makati City

Attention: **ATTY. CHARLOTTE JENNIFER V. VALBUENA**
Counsel & Authorized Representative

Gentlemen:

This refers to your letter requesting for confirmation that the reconveyance by the Development Bank of the Philippines ("DBP") of the foreclosed real properties predicated on a Judgement by Compromise promulgated by the Regional Trial Court Branch 39 of Polomolok, South Cotabato ("RTC Branch 39") is exempt from the payment of income tax, capital gains tax ("CGT") imposed under Section 27 (D) (5) and documentary stamp tax ("DST") imposed under Section 196, both of the National Internal Revenue Code (Tax Code) of 1997, as amended.

Background:

The case owes its genesis when Milestone Paper Products Incorporated ("MPPI") obtained a loan from DBP amounting to Five Hundred Fifty-Seven Million Five Hundred Thousand Pesos (Php557,500,000.00). East Asia Integrated Livestock, Inc. ("EAILI") along with thirty-two (32) individual agricultural land owners acted as third party-mortgagors of MPPI. To secure the loan of MPPI, EAILI mortgaged in favor of DBP real properties covered by the following Transfer Certificates of Title ("TCT") Nos. ("subject properties"):

1. TCT No.
2. TCT No. and
3. TCT No. .

The thirty-two (32) individual agricultural land owners also mortgaged real properties in favor of DBP.

For non-payment of the loan, the mortgaged subject properties were foreclosed pursuant to Act No. 3135. DBP then filed an Extrajudicial Petition for the sale of the subject properties with the RTC Branch 39. On October 21, 2013, a Notice of Extrajudicial Sale was issued by the Sheriff of RTC Branch 39 where TCT Nos. , , and were set to be sold at a public auction on January 15, 2014. DBP won being the only bidder and mortgagee/creditor of EAILI.

On April 15, 2014, a certificate of Extrajudicial Foreclosure Sale was issued by the Sheriff of RTC Branch 39 and was registered before the Registry of Deeds of Koronadal, South Cotabato ("RD") on June 6, 2014.

More than three months after the registration of the certificate of Extrajudicial Foreclosure Sale, DBP consolidated the subject properties under its name pursuant to Section

47 of Republic Act (RA) No. 8791, otherwise known as the "*General Banking Law of 2000*". The RD then issued the following TCTs to DBP on October 14, 2014:

Old Title Nos.	New Title Nos.
T-	
T-	
T-	

On September 2015, DBP filed a Petition for Issuance of Writ of Possession docketed as Misc. Case No. 657-715 before RTC Branch 39 over the subject properties.

Aggrieved, EAILI filed on November 26, 2015 a Complaint for Annulment of Titles, Redemption, Damages with Preliminary Injunction also before RTC Branch 39 docketed as Civil Case No. 795-15. EAILI contends, among others, that it is entitled to redeem the subject properties for a period of one (1) year from the registration of the certificate of sale pursuant to DBP's Charter[1], and that the titles issued to DBP are premature, illegal and invalid. EAILI prays for the cancellation of the titles issued to DBP and be given a reasonable period to redeem the subject properties.

On February 14, 2020, EAILI and DBP agreed to enter into a compromise agreement to amicably settle the case. On February 19, 2020, RTC Branch 39 issued a Judgement by Compromise which became final and executory on February 26, 2020[2] wherein EAILI shall pay DBP the compromise amount of Two Hundred Million Pesos (Php200,000,000.00) in consideration for the conveyance of the subject properties to EAILI, with the following details:

OWNERS	TCT NOS.	AMOUNT
Originally EAILI Properties		Php135,207,168.19
The other thirty-two (32) individual agricultural land owners	Several Titles	64,792,831.81
TOTAL		Php200,000,000.00

The total amount of Two Hundred Million Pesos (Php200,000,000.00) was paid in full by EAILI in favor of DBP on February 24, 2020. Accordingly, on March 10, 2020, DBP made and executed a Deed of Absolute Sale in favor of EAILI covering TCT Nos. , and for a consideration of One Hundred Thirty-Five Million Two Hundred Seven Thousand One Hundred Sixty-Eight Pesos and 19/100 (Php135,207,168.19). Based on the foregoing, you now request for a ruling that the reconveyance by DBP of the subject properties back to EAILI is not subject to CGT and DST.

In reply, please be informed that in BIR Ruling No. OT-0371-2020 dated July 03, 2020, this Office ruled that:

> "......*since the reconveyance of the subject property in pursuance to the Decision of the RTC is without consideration and the reconveyance was in order to return the property to the legal owner, the transfer..........is not subject to the capital gains tax (CGT) imposed under Section 24 (D) (1) of the National Internal Revenue Code of 1997, as amended. Likewise, the Deed of Reconveyance is not subject to the documentary stamp (DST) imposed under Section 196 of the National Internal Revenue Code of 1997, as amended, but is subject to the P15.00 DST on the notarial acknowledgement as imposed under Section 188 of the same Code.*"

[1] Section 16, Executive Order (EO) No. 81 series of 1986.
[2] Per Entry of Final Judgement dated February 26, 2020.

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In this case, while the reconveyance of the subject properties includes a consideration/ compromise amount of One Hundred Thirty-Five Million Two Hundred Seven Thousand One Hundred Sixty-Eight Pesos and 19/100 (Php135,207,168.19), the said consideration/ compromise amount actually represents the payment of the loan amount and related mortgage on the subject properties pursuant to the Mortgage Agreement dated September 15, 2010 between EAILI and DBP and EAILI's cause of action under Civil Case No. 795-15 filed before RTC Branch 39. In effect, by paying the said amount, EAILI was allowed to redeem the subject properties, which is its main prayer in the Complaint for Annulment of Titles. Thus, since the Deed of Absolute Sale dated March 10, 2020 made and executed by and between DBP and EAILI is in pursuance to the Decision of RTC Branch 39 and the reconveyance was in order to return the property to EAILI, the legal owner, which has the effect of redemption, said transfer is not subject to CGT imposed under Section 27 (D) (5) and DST imposed under Section 196, both of the Tax Code of 1997, as amended. However, it is subject to the P30.00 DST on the notarial acknowledgement as imposed under Section 188 of the same Code.

This ruling is being issued on the basis of the foregoing facts as represented. However, if upon investigation, it will be ascertained that the facts are different, then this ruling shall be considered null and void.

Very truly yours,

CAESAR R. DULAY
Commissioner of Internal Revenue

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